

## GENERAL DISCUSSION

### Analysis of Special Provisions of the Bill

The most important features of the bill and those which are so extraordinary, radical and sweeping in their character as to provide for a revolution in the banking business of this country relate to the creation of the Federal Reserve Board, the vast powers conferred upon it, its political composition, and the power of the Board to regulate and control bank credits and note issues. In view of these extraordinary powers, it seems still more remarkable that there should be no provisions for an appeal by the reserve banks from the decisions, acts or rulings of the Board, nor any accountability to which the Board or its members may be held, nor any penalties to which they may be subjected, nor, indeed, any authority to which they shall be required even to make reports. The sole authority in restraint of their acts would seem to lie in the general power of the President to remove from office for cause persons appointed by him.

In the face of power so great and unprecedented, subject to no control and to practically no restrictions, it follows necessarily that all other provisions of the bill are of secondary importance and, for the most part, of minor consequence.

### THE FEDERAL RESERVE BOARD

The Federal Reserve Board as provided shall consist of seven members. Three ex-officio members are the Secretaries of the Treasury and Agriculture and the Comptroller of the Currency. Four others are appointed by the President with the consent of the Senate, and of these one shall be a person experienced in banking, and from these four shall be chosen the Governor and vice-Governor of the Board. Member banks supplying the capital of all Federal reserve banks have no representation whatever on

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the Federal Reserve Board nor any voice in its composition.

### General Powers of the Board

In addition to the large number of important special powers conferred upon the Federal Reserve Board (which are enumerated and commented upon elsewhere) the following are its general powers:

(a) To examine the affairs of the Federal reserve banks and to require reports.

(b) To require or, on application, to permit a Federal reserve bank to rediscount paper of another Federal reserve bank. The power to permit such rediscount is proper, but the authority to require a loan to be made by one bank to another is entirely too great and might be subject to grave abuses.

(c) To suspend for not more than thirty days, and indefinitely to renew suspension for periods of not more than fifteen days, all reserve requirements.

Some such power might be useful in panics, but it is so great that it cannot in safety be delegated to persons inexperienced in finance and not of proved ability; and certainly not to any body of men unless they were free from all possible political influence.

(d) To supervise and regulate the issue and retirement of Treasury notes to Federal banks.

This likewise is a dangerous power. The retirement of bank-notes should be, and easily can be, made automatic. (Fully explained below).

(e) To add to the number of cities classified as reserve and central reserve cities, and to reclassify such cities and to designate banks therein as country banks at its discretion.

The last clause is a joker. No good purpose can be served by placing such power in the hands of any board, but in the hands of politicians it would be subject to oppressive and dangerous abuses. Since the power is restricted to reserve and central reserve

cities, it necessarily is aimed at banks in the large cities. None but political considerations could have inspired or can defend such an arbitrary, useless and unnecessary power.

(f) To require the removal of officers of Federal reserve banks.

(g) To require the writing off of doubtful and worthless debts.

(h) To suspend the operations of any Federal reserve bank.

(i) To perform the duties specified in the Act.

The following are some of the additional powers conferred upon the Federal reserve board:

I. To fix regulations for the establishment of branches.

Such power should be limited or subject to some control because of the manifest possibilities of abuse.

II. To create new districts or readjust old ones upon the application of ten or more national banks.

There does not appear to be any just reason for excluding state banks which might be members, from joining in such applications.

III. The power to remove three directors of the Federal reserve banks in "Class B," representative of commercial, agricultural and business interests, at the discretion of the Federal reserve board.

This power gives control of the board of directors of every Federal reserve bank to the Federal reserve board, because in addition to the power of removal they have the power to appoint three additional directors of "Class C," making six out of nine. THE POWER OF REMOVAL AT DISCRETION WITH NO RIGHT OF APPEAL MEANS CONTROL.

IV. The power to appoint three directors of "Class C," one of whom shall be chairman of the Federal reserve board, designated as "Federal Reserve

Agent," and who is the official agent and representative of the board of control. His office is maintained under regulations of the Federal board, his compensation is fixed by them, and his reports are made to them. His removal is at their discretion, without notice.

It would be difficult to organize the Federal reserve banks in respect of their directors so as to leave the minority of three directors representing the stock-holding banks more helpless.

V. The Federal reserve board may cancel the membership of a state bank and, by inference, (although the language is not entirely clear) the membership of a national bank.

In the case of a state bank the alternative would be to go out of business entirely and surrender its charter as a state bank, with of course the privilege of reorganizing as a state bank under some other name. In the case of a national bank the alternative might be to surrender its national charter and go out of business or to reorganize as a state bank.

VI. The Federal reserve board is composed of seven members, the Secretaries of the Treasury and Agriculture and the Comptroller of the Currency being ex-officio members. The four additional members are chosen by the President, of whom one shall be a person of experience in banking. Of these four appointees one shall be the governor, who shall be the acting managing officer of the board, and one the vice-governor. *Thus it is apparent that either the governor of the Federal reserve board or the vice-governor may not be a banker of any experience whatever.*

VII. The power to levy upon Federal reserve banks in proportion to their capital, an assessment to pay estimated expenses and to cover deficits carried forward.

This power is absolute and no limit seems to be set upon the amount of expenses which the board may incur or upon the percentage of assessment which may be levied semi-annually upon the capital stock of member banks.

VIII. The power to determine or define, with certain exceptions, the character of paper eligible for re-discount.

This is sound, but the bill unfortunately confuses self-liquidating commercial *assets with investment securities*, and gives to the Federal board discretionary power to authorize loans to be made directly by Federal reserve banks to *THEIR* members against bonds and other specified securities, which is unsound both in theory and in practice.

Bank notes cannot safely be issued against investment securities. We cannot drift away even in times of panic from the secure anchorage of inherent liquidity in all assets against which circulating notes are issued, *if the notes are to be maintained on a basis of gold redemption on demand*. Therefore, borrowing by individual banks against investment securities or unliquid assets of any character should be left not at the discretion of the Federal reserve board but a matter for the banks to arrange amongst themselves with their correspondents outside the Federal reserve banks. The lending bank, in turn, if required to supply notes to its borrowing correspondents should be required to procure such notes from the Federal reserve bank out of its own funds, or by pledging its own liquid assets, thus assuring always to the Federal reserve bank among its assets nothing but quickly maturing mercantile paper. Herein lies the reason for keeping all classes of discountable paper at very short maturities. If this elemental principle be ignored the Federal reserve banks will find themselves as surely and hopelessly embarrassed in a panic as any individual member bank will be, because the assets of the Federal

reserve banks will be equally as *unresponsive to immediate demands because of inability to maintain their own reserves*. All of Section 14 and that part of Section 13 relating to the discount by Federal reserve banks of paper backed by investment securities should be eliminated.

To insure the quality of elasticity emphasis must be laid upon the fact that one Federal reserve bank should not put out the notes of another bank. The contention of one against the others to keep notes in circulation will always exactly balance the amount of notes outstanding to the amount required. The best illustration of this may be found in the working of the Suffolk Bank System in New England, which gave this country the best and soundest bank-note issues it has ever enjoyed. There a number of banks located in different states, operating under the laws of their respective states, were for the most part subjected to no restrictions, or very loose ones respecting the amount of note issues, or reserves of gold to be held against them, the sole condition being the ability of a bank to redeem its notes at par on demand in Boston. The system was sound and for years gave the country a safe, elastic and perfectly satisfactory bank note issue. The principle which provided that elasticity was not statutory, but natural and fundamental.

IX. To prescribe rules and regulations for the purchase and sale of bills of exchange, cable transfers, etc., by Federal reserve banks.

This is an entirely unnecessary power, and one which should be left at the discretion of the Federal reserve banks, according to their own necessities, or the requirements of trade.

X. The power to review and determine minimum discount rates for all classes of paper, discountable at Federal reserve banks.

This also is an unnecessary power, and one which should be reserved to the boards of directors of the respective Federal reserve banks according to their circumstances and the status of their respective reserves. Consent of the Federal reserve board, must be obtained by Federal reserve banks before opening accounts and establishing agencies or banking connections or doing business in foreign countries. This also is an unnecessary power, subject to possible abuse, and one which ought to be left at the direction of the management of the Federal reserve banks and their respective boards of directors.

XI. The currency provided by the bill shall be issued at the discretion of the Federal board.

Here it may be well to lay down a few principles respecting legislation in reference to the issue of bank notes.

The chief cause of conflict of opinion respecting important details of currency legislation is a general lack of understanding of the very restricted functions of true bank-note issues; *and a confusion of these functions with those of lawful money.* A false view of the nature of bank notes *identifies them with money* and fails to recognize them as *merely credit instruments* passing as the temporary substitutes for money. Bank notes, in fact, are substitutes exactly as a bank check or a draft is a substitute and takes the place of so much actual cash in a given transaction. A bank note does not rightly possess, and should not be given, any of the qualities whatever of lawful money, nor be available as reserves for any bank. It is true that a bank note does pass from hand to hand without endorsement and performs certain useful functions of money, but it does not in any respect differ from the functions performed by checks or bank drafts where bank-note issues are scientifically put out. It follows, in consequence, that the relations of

the Government towards banks of issue need not consist in a regulative interference.

When a bank note once has circulated and is presented for redemption or for credit, it is a proof that the work of that particular note is finished and the note itself should be immediately cancelled, for precisely the same reasons that a check is cancelled when it is presented and paid. To re-issue checks and force them out after being once redeemed would constitute inflation. It would be dangerous to force such credits again into use, for precisely the same reason that it would be to put out redundant issues of bank notes. Let the idea be kept clearly in mind that a bank note is no more nor less than a bank credit. It differs in form from a cashier's check, or from a bank draft, or from a deposit on the books of the bank, but it is none the less a demand liability of the bank and redeemable as such. The difference is in form, but not in substance.

The matters of securing bank notes by collateral and of regulating their issue by the Government, are truly no more the proper business of the Government than that of regulating the amount of the deposits of a bank or of its outstanding demand liabilities in other forms. Until this principle is understood, and so long as the Government attempts to fix or regulate the volume of notes issued by the banks, we shall always have either too much or too little currency. Such currency may be sound, but we can never have an amount which automatically adjusts itself to business requirements as do cashiers' checks, certified checks, bank drafts and other such instruments. A regulative control of the business of banking and of notes issued by Federal reserve banks ought not to be attempted by the Government as it cannot be successfully and scientifically carried out. All such attempts necessarily result in too much or too little currency. As potential evils there is little choice between these conditions.

PRINCIPLES OF BANKING AND CURRENCY  
LEGISLATION.

The following are some of the main principles which should underlie banking and currency legislation so far as the Government is concerned.

1. The establishment of reserve banks with large capital and having as many branches as may be required.

2. Sound provisions for the free flux and reflux of bank notes, supported by strong gold reserves and covered by liquid assets of short maturities.

3. Adequate provisions for automatic redemption; and provision of means of forcing every bank to convert its notes into gold on demand or to go into bankruptcy.

In addition to these simple regulative measures, the concern of the Government should extend only to two or three points and these should be covered with the utmost care. They involve: (1) the strictest publicity of the transactions of the bank; (2) compulsory examinations; (3) frequent reports; (4) strict responsibility on the part of the directors and managing officers; (5) restrictions concerning the character of loans to be made by banks of issue and the amounts to be loaned to any other bank or borrower. These simple provisions abundantly cover every point of governmental concern in a sound bank note issue.

XII. The Federal reserve board has the power to accept in whole or in part, or to reject, the application of Federal reserve banks for notes. (This is in conflict with the proper functions of government in respect of bank note issues, as explained above).

XIII. To fix the rate of interest to be charged by the government for the use of notes issued by Federal reserve banks.

This provision strikes at and undermines the foundations of sound bank note issues.

Laying aside the question as to whether the government should, or should not, receive a rate of interest for such notes, the provisions of the bill are such that so far as the government is concerned it is immaterial. It is proposed that all the profits over and above a small return to members on the capital investment shall after the establishment of a nominal surplus fund go to the government. It follows, therefore, that if a tax shall be laid upon the notes at the time of their issue, the tax will come out of the profits of the Federal reserve banks; and consequently, in the end so much less profit will be returned to the government. This view is predicated upon the assumption that the Federal bank would absorb the initial cost in this case incident to the issue of notes, but in ordinary business practice such an assumption is false, for the cost of procuring the notes would be laid upon the users of them, which of course would be the public; and consequently any initial tax is unnecessary and lays upon trade and commerce just so much of a useless burden. The outflow and inflow of bank notes should be free and responsive to trade requirements. Any obstructions and burdens laid upon their issue, or upon their retirement are costly to trade and involve dangers especially grave when facilities for redemption are not automatic and in continuous operation.

XIV. The board shall make regulations governing the transfer of funds at par among Federal reserve banks.

This in theory is highly desirable but in actual business practice would be impossible. It might be accomplished to a certain extent in the case of one central bank with numerous branches by making book entries at the head office, crediting one branch and charging another, where no expense would be involved in the actual transfer of funds; but in the case of a number of independent Federal reserve banks this would be impracticable because of the seasonal flow outward of currency into the country

and of its flow backward for redemption at the season's end. Such flux and reflux cannot be accomplished by book entries. They must be made by and through the actual physical transfers of currency, and this entails expense. At certain seasons, under whatever regulations the board might impose, there would be large accumulations of credit balances at certain Federal reserve banks, and of debits at other points. In other seasons the reverse would be the case and in the meantime such debits and credits could not be settled by a mere arbitrary command to one regional bank to remit to others at par, for this would become an intolerable and quite likely an impossible burden, making large inroads upon the earnings of such a bank. Particularly would this be so in the case of Federal reserve banks located in the interior and crop-growing sections, where currency would be required in large quantities at one time and not at another.

The whole question of terms and conditions upon which one regional bank shall remit to another should be left to those banks to settle between themselves. This, however, need not interfere with some equitable arrangement whereby the Federal bank in any particular district might act as clearing agent for its own members, but not for banks in other districts nor for other regional banks. It is as unsound to compel by law a fixed parity of exchange at par between New York and San Francisco, at all times, regardless of trade movements as it would be to try to maintain such a parity between New York and London.

XV. The Federal reserve board has power at its discretion to exercise the functions of a clearing house and to require each federal reserve bank to act as a clearing house for its members. (The comments made under the preceding paragraph also apply here).

XVI. The Federal reserve board has the power to

order special examinations of members, and to fix the salary of examiners.

XVII. The board has power to prohibit any bank establishing foreign branches if deemed inexpedient, even though the bank applying for such privilege shall be qualified under the Act.

It will be seen from the foregoing that the powers of the Federal reserve board are practically unlimited, and inasmuch as they are subject to the regulation or control of no superior body these powers are of too broad and sweeping a character to be safely entrusted to a small body of politically appointed men, but one of whom is required to have knowledge of banking or experience in business. The mere suggestion seems beyond belief.

### BRANCHES.

Federal reserve banks are permitted to have a number of branches not exceeding one for each \$500,000 of paid-in capital of the Federal reserve bank.

Considering the powers and functions of the Federal reserve banks and the fact that they are to hold the cash reserves of the banks of the whole country, the proposed minimum of capital for branches is entirely too small to be safe.

By reason of the constantly fluctuating capital of Federal reserve banks due to the withdrawals of members or to decreases in their capital and to failures, it is conceivable that in view of the small apportionment of capital to a branch, a parent Federal reserve bank might find itself violating the statute by having a larger number of branches than its capital warranted. For instance, at a critical time the withdrawal or failure of a member bank having, say, \$5,000,000 capital would of course necessitate a proportionate reduction in the capital of the Federal reserve bank of which the failed bank was a member; and might entail in con-

sequence, the summary closing of one or more branches of that Federal reserve bank so as to bring the number of branches within the law. This would be an awkward embarrassment and it demonstrates the necessity for a high average proportion of capital to be assigned to each branch.

A bank becoming a member of a Federal reserve bank appears to have no way to relinquish such membership except (a) in the case of a national bank, to convert into a state bank and take out a new charter; (b) in the case of a state bank to surrender its charter and liquidate or to reorganize as a state bank under some other title.

### DIVISION OF EARNINGS

Members of Federal reserve banks will be entitled to receive 5% cumulative dividends on their capital invested, and no more. The government appropriates the remainder of the earnings after a surplus fund of 20% of the capital of the Federal reserve bank has been established.

Although supplying none of the capital, and paying the expenses of its appointed board and of the administration of the affairs of the Federal reserve banks, (through the reserve board) by assessment upon the member banks, the government appropriates the whole of the remainder of the earnings, reserving at the same time the right to charge interest on notes issued and also collecting interest on government deposits. It is difficult to justify the theory or to defend the ethics of this plan as a business proposal. Any well managed bank through a series of years may earn at least 5% on its capital. If it cannot do this it might better go out of business, for the shareholders as individuals might use their money to as good or better advantage. How, then, can it be expected that national banks should willingly become members of Federal Reserve banks, and be thus deprived

of at least as good returns upon their capital as they might themselves earn? Will not this arbitrary appropriation of profits by the government tend to keep well managed banks out of the system, and will it not restrain good state banks from becoming shareholders unless the loss shall be offset by benefits not now apparent in the plan?

The salaries of the four appointed members of the reserve board are to be paid by assessment on Federal reserve banks. The wise discharge of the responsibilities and the prudent exercise of the great powers placed in the hands of the Federal reserve board call for ability of the highest order on the part of individual members of the board. Salaries of \$10,000 a year cannot command the services of such men. Appointments on a board commanding such salaries become attractive only to a class of men ambitious for themselves politically or otherwise. It must be admitted, however, that any larger salaries would (if the appointments are to remain political) tend only to increase the scramble for the offices as political prizes; and while augmenting the dangers as salaries might be increased, would not insure the selection of a higher class of men. This constitutes another strong reason why the Federal reserve board should at all events be composed of capable, and experienced men selected for their fitness; and that they should be chosen in some manner from among the ablest and most experienced officers and directors of the subscribing banks. This is quite apart from any contention by the member banks as to the right of such representation on the governing board.

### REDISCOUNTS

Section 13 defines the character of paper eligible for discount at Federal Reserve banks by members.

The general provisions so far as they relate to the discount of short-time, self-liquidating paper

growing out of trade transactions are good and sufficient. They should be left as they are. But a grave mistake is made in giving the Federal Reserve board discretion to permit the discount of other paper secured by bonds. This is fundamentally wrong in that it confuses two different classes of banking. The assets of commercial banks should consist of short-time, self-liquidating mercantile assets, while investment banking contemplates the possession of sound but long-time, unliquid securities. Such securities are not a sound basis for currency issues. The mistake is repeated in Section 14, which provides for emergency note issues, and these have no place in a sound bank note currency.

#### NOTE ISSUES

The authorized issue of Federal reserve treasury notes is \$500,000,000 plus the amount of national bank notes retired after the passage of the act. These notes "purport" on their faces to be obligations of the United States government. They are issued only to Federal reserve banks at the discretion of the Federal reserve board and are redeemable on demand at the United States Treasury out of a 5% redemption fund held for that purpose, and also at the Federal reserve banks. These notes are obtainable only on application to the Federal reserve board through the local Federal reserve agents of the regional banks. They are to be secured by collateral in the form of notes, bills and acceptances of a class designated in the bill for rediscount by Federal reserve banks. These collaterals may be substituted. Interest may be charged for the use of notes at the discretion of the Federal reserve board. Such notes are a paramount lien on all the assets of the Federal reserve bank putting them out.

As already pointed out, the notes should not purport on their faces to be what they are not, for it is a deception of the public. They should state on their faces that they are notes of the particular Federal

reserve bank which issues them. Each bank should be given a number and all notes put out by or through a bank should bear its number. The notes should not be intended to have the functions of money, but only those of a true bank note issue, which is but another form of bank credit, differing in no respect from a credit on the books of a bank, except in that a note may and does pass from hand to hand.

There is no objection to regulation and supervision on the part of the Government concerning the manner in which the notes are issued, nor is there any objection to their being fully secured by liquid assets and gold reserve. Neither is there any sound objection to giving the notes a prior lien on all the assets of the issuing bank. But if this shall be done there is no reason for lodging in the hands of the Federal reserve agent segregated securities. The prior lien carried by the notes would cover such securities as well as all others. Consequently, the segregation is an unnecessary formality. However, no objection is raised on that point. The great thing to be desired is that the redemption facilities shall be ample; and that strong reserves of gold shall be kept against the notes and that the remaining cover shall be liquid, and that they shall be redeemable on demand in gold beyond peradventure. The quality of elasticity can only be given by forbidding one Federal reserve bank to pay out the notes of another such bank, or to hold the notes of another bank as a portion of its required reserves, or to deduct such notes from its liabilities when computing reserves. Notes issued by one Federal reserve bank should be redeemable at the pleasure of the holder at par, in gold, at any other Federal reserve bank. But the bank so redeeming them should at once return the notes either to the bank of issue and take credit therefor or require redemption in gold or otherwise, as might best suit its convenience; or return them to the Treasury Department for redemption out of the 5% fund of the bank which issued them and

thereby take them out of circulation. This plan of redemption would insure the circulation at all times of an amount of notes exactly in proportion to trade requirements. The moment a note has done its work and is turned in to any Federal reserve bank for redemption or credit by any member, the life of that note is completed and it should not be put out again, nor held on hand for any purpose. Under the proposed plan there is no incentive to Federal reserve banks to present for redemption the notes of other banks. In this respect the proposed currency would be subject to almost the same objections as to inelasticity which are now urged against the national bank notes.

The Federal reserve board may reject the application of any bank for notes.

This is an unnecessary power and one which not only would be subject to abuses but might occasion the greatest embarrassment to a Federal reserve bank and its members. As already stated, the flux and reflux of bank notes should be free and should be subject to no regulations except the natural demand for the notes by the public, conditioned upon the ability of the Federal reserve bank to maintain the required reserve of gold and the additional cover of short-time liquid assets. The proper method to prevent inflation is not by laying an initial tax either as interest or otherwise upon the notes at their time of issue; but to begin with a high normal reserve of gold, and to begin laying a tax upon the deficiency in the reserves on a scale increasing in proportion to the amount that the gold reserves fall below the normal.

#### REFUNDING BONDS.

The plan proposes that United States 2% bonds deposited to secure circulation shall be refunded into three per cent 20-year bonds which shall be exchanged at par, and that each bank shall give up a proportionate amount of its circulating privileges annually for 20 years.

While it is probable that changes are yet contemplated in respect of this provision, the broad principle may be laid down that the good faith of the Government is pledged to redeem these 2% bonds eventually at par. This might easily be done without refunding if the redemption of the whole amount shall be spread over a period of twenty years as proposed. That is to say, the Government out of its current receipts might easily retire \$35,000,000 of bonds a year for the next twenty years and in all probability be under no necessity of refunding any part of the issue, either in three per cents. or otherwise. But, if it should come about that we should go to war, or for any other reason it should become necessary for the Government to issue bonds, then such bonds could be put out upon their merits as an investment security when and as the Government might need to borrow. The Government intends to, and will, redeem its obligations at par, and for present purposes that might well be an end of the matter. But while the 2% remain outstanding let the present circulating privileges remain unchanged at least until existing bank charters expire. In all such cases, as charters cease the bonds should be called at par.

The provisions of the bill respecting the amounts of reserves both in the Federal reserve banks and of the members of the three classes, country banks, reserve cities and central reserve cities, seem to be adequate and unobjectionable. It would strengthen the Federal reserve banks if they should be required to begin with larger normal reserves than  $33\frac{1}{3}\%$ ; and to lay a tax upon the deficiency in reserves as they fall below the normal amount; fixing 80% as the ultimate minimum of reserves against demand liabilities which must be maintained at all events. A reserve fixed permanently at any point is open to strong objections. The provision of the bill that the reserves carried by member banks in the Federal Reserve banks shall *never fall below* the amounts specified,

tie up the reserves of the banks and make them as useless as if they were composed of lead. The theory is utterly unsound.

### BANK EXAMINATIONS.

The bill provides that examination of national banks shall be made by the Comptroller of the Currency at least twice a year and as often as the Federal reserve board may require. The Secretary of the Treasury may also direct special examinations. The salaries of the examiners are fixed by the Federal reserve board and are paid by assessments on the banks in proportion to their assets.

These requirements seem reasonable and in accordance with sound practice. But, in addition, the Federal reserve banks may conduct special or periodical examinations of their members, and also the Federal reserve board may as often as desired, *and not less than four times a year*, order examinations of national banks in reserve cities.

While no well managed bank objects to frequent examinations or to the most rigid scrutiny of its affairs and welcomes them when thoroughly and competently done, we seem here to have the business of inquisition reduced to an absurdity. Power to examine national banks is vested in no less than four separate Governmental authorities, the Comptroller of the Currency, the Secretary of the Treasury, the Federal reserve board and the Federal reserve banks. In the case of national banks located in reserve cities there are no less than six compulsory examinations yearly under Federal authority, two by the Comptroller, four by the Federal reserve board, and as many more as they may choose to make, all of which are to be paid for by the bank under examination. These six Governmental examinations together with those which are already conducted in many cities under Clearing House authority, and also by the directors of all well managed

banks in their own behalf, would keep banks in the larger cities practically under continuous examination at great and unnecessary expense, to the confusion of business and to the detriment of good banks by reason of the suspicion under which they would be brought at home and abroad through continuous demands for the reconciliation of accounts. Two compulsory examinations a year under Government authority (made by the Comptroller) and one on the part of the directors—including an audit by chartered accountants—with power on the part of the Comptroller to examine oftener if necessary, would meet all reasonable requirements. Certainly this would be sufficient with authority on the part of Federal reserve banks to conduct examinations in special cases for their own information. For the most part, all the information desired or necessary could be obtained by Federal reserve banks, by the Secretary of the Treasury, and by the Federal reserve board from the reports of examinations made under authority of the Comptroller.

These provisions respecting the examination of reserve city banks afford a fair illustration of the apparent suspicion and distrust entertained by the framers of the bills towards a class of the best managed banks in the country, and indicate an unwillingness to believe that such banks can be, or are, honestly and efficiently administered according to the law.

### SECTION 25.

The second paragraph of Section 25 provides that no officer or director of a national bank shall be the beneficiary, directly or indirectly, of any transaction made by or in behalf of a national bank of which he is such an officer or director. Presumably, this is intended to relate only to fees, commissions, gifts or like considerations which might be given to an officer or director for loans made by a bank; if so and it be so construed, no reasonable objection could be raised to it. But the language appears to be so broad as to cover all transactions; such for instance, as a legiti-

mate loan made by a bank officer or director to a mercantile or manufacturing company in which such officer or director might be even a small shareholder. This certainly goes too far, for it would preclude the best men in every business community from becoming officers or directors of local banks. Their services as such are highly to be desired and are essential to the sound conduct of banks. Their influence, their knowledge and their experience of local business affairs are invaluable to every bank, and to preclude them (because they happen to be directors or officers) from permitting companies in which they may be shareholders to do business with the bank would manifestly be an injustice and one which the law ought not to impose. The apparent objects of the paragraph under consideration might well be retained, and for good reasons, but the language should be so changed as not to prevent legitimate transactions with business concerns whose shareholders might happen to be officers or directors of a national bank. Ninety and nine honest persons should not be thus punished or penalized in order to catch the one possible rascal of the hundred average men.

#### STOCKHOLDERS LIABILITY.

The provision holding the shareholders liable to assessments sixty days after transferring their stock in good faith is unfair. It makes investments in national bank shares less attractive to responsible shareholders. The liability after transfers of stock should be continuous only when there is reason to suspect a fraud or lack of good faith, and in that event the liability should be practically unlimited as to time; or, at least, it should continue for a period of three or more years. Knowledge of the condition of a bank or reasonable opportunity to possess such knowledge, as, for example, in the case of an officer or a director, should (when a stockholder's liability is to be asserted) be *prima facie* evidence of bad faith

where such officer or director has transferred his stock, and in such a case this presumptive knowledge should fix his liability indefinitely.

#### FOREIGN BRANCHES.

Except in respect of the discretionary powers given to the board of control, the provisions of the bill for establishing branches in foreign countries would do much towards promoting and developing foreign trade.

The principle of establishing branch banks is recognized in the bill both in the right granted to Federal reserve banks to establish branches and in the privilege accorded to national banks having a capitalization of one million dollars or more to establish branches in foreign countries. It would be highly desirable to extend the privilege further to national banks in reserve cities and to permit all such banks having a capital of not less than \$1,000,000 to establish branches in the city where they are located. Within prudent limitations there are no good reasons why such branches might not be established with benefit to the banks and with increased safety to the public.

These limitations ought to be:

1. No branch to have less than the minimum capital now required for the organization of an independent national bank in the city in which the branch is located.
2. The requisite capital to be specifically set aside by the parent bank for each branch.
3. All limitations of the National Bank Act should be made to apply in respect of loans made by branches and should be based upon their own capital in the same manner as if they were independent banks.
4. All loans made by branches to any person, firm or individual should constitute a portion of the loans included in the statutory limitations applying to the parent bank.

5. Parent bank should be liable for all debts of branches.

6. Branches should be permitted to have local advisory boards, but the control and responsibility for the conduct of branches should rest with the board of directors of the parent bank under existing statutes.

Branches so established and conducted would be stronger and in the large cities would be assured better and more experienced management, and would afford the depositing public more safety and offer better banking facilities than is possible at present in the case of a large number of small, independent outlying banks, whether state or national.

The extension of this privilege to national banks in reserve cities would be attractive and would constitute a strong incentive for their remaining in the system. Through such branches might be found a means of regaining the losses of reserve deposits now held for the account of other banks. The certain loss of these deposits eventually, and the absence of any special compensating features offered in the proposed bill, are among the strong reasons for inducing the most important national banks in the reserve cities to abandon the national banking system. The chief inducements heretofore offered to national banks in Reserve cities to remain in the system have been; (1), the privilege of issuing circulating notes in which there has been a small but diminishing profit; and (2), the right to hold the reserves of other banks.

Now it is proposed that both privileges shall be taken away gradually.

The most logical, useful and attractive benefit therefore, which could be offered in compensation to national banks in reserve cities would be the privilege of establishing local branches in their own cities; and without this the national system completely loses the special advantages which it has heretofore offered, and in fact, all advantages whatever.

## A BILL

To provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."*

### FEDERAL RESERVE DISTRICTS.

SEC. 2. That within ninety days after the passage of this Act, or as soon thereafter as practicable, the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, acting as "The Reserve-Bank Organization Committee," shall designate from among the reserve cities now authorized by law a number of such cities to be known as Federal reserve cities, and shall divide the continental United States into districts, each district to contain one of such Federal reserve cities: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business of the community and shall not necessarily coincide with the area of such State or States as may be wholly or in part included in any given district. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board hereinafter established, acting upon a joint application made by not less than ten national banks situated within one of the existing districts. The districts thus constituted shall be known as Federal reserve districts and shall be designated by number according to the pleasure of the organization committee.

The organization committee shall, in accordance with regulations to be established by itself, proceed to organize in

each of the reserve cities designated as hereinbefore specified a Federal reserve bank. Each such Federal reserve bank shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago," and so forth. The total number of reserve cities designated by the organization committee shall be not less than twelve, and the organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigations as may be deemed necessary by the said committee for the purpose of determining the number of reserve cities to be designated.

Every national bank located within a given district shall be required to subscribe to the capital stock of the Federal reserve bank of that district a sum equal to twenty per centum of its unimpaired capital, one-half of such subscription to be paid in under the terms and conditions prescribed by the national banking Act with reference to subscriptions to the stock of national banking associations. The remainder of the subscriptions or any part thereof shall become a liability of the subscribers, subject to call and payment thereof whenever necessary to meet the obligations of the Federal reserve bank under such terms and in accordance with such regulations as the board of directors of said Federal reserve bank may prescribe: *Provided*, That no Federal reserve bank shall be organized with a paid-up and unimpaired capital at the time of beginning business less in amount than \$5,000,000. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses, shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

#### STOCK ISSUES.

SEC. 3. That the capital stock of each Federal reserve bank shall be divided into shares of \$100. The outstanding capital stock shall be increased from time to time as subscribing banks increase their capital or as additional banks become subscribers, and shall be decreased as subscribing banks reduce their capital or leave the organization. Each Federal reserve bank may establish branch offices under regulations of the Federal Reserve Board at a point within the Federal reserve district in which it is located: *Provided*, That the total number of such branches shall not exceed one for each \$500,000 of the capital stock of said Federal reserve bank.

#### FEDERAL RESERVE BANKS.

SEC. 4. That upon duly making and filing with the Comptroller of the Currency a certificate in the form required and described in sections fifty-one hundred and thirty-four and fifty-one hundred and thirty-five, Revised Statutes of the United States, such Federal reserve bank shall become a body corporate and as such and in the name designated, respectively, in the organization certificate shall have power to perform all those acts and to enjoy all those privileges and to exercise all those powers described in section fifty-one hundred and thirty-six, Revised Statutes, save in so far as the same shall be limited or extended, as the case may be, by the provisions of this Act. The Federal reserve bank so incorporated shall have succession for a period of twenty years from its organization, unless sooner dissolved by Act of Congress.

Every Federal reserve bank shall be organized and conducted under the oversight and control of a board of directors, whose powers shall be the same as those conferred upon the boards of directors of national banking associations under existing law, except in so far as expressly provided to the contrary in this Act. Such board of directors shall be constituted and elected as hereinafter specified and shall consist of nine members, holding office for three years and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who shall be representative of the general public interests of the reserve district.

Class C shall consist of three members, who shall be designated by the Federal Reserve Board.

Directors of class A shall be chosen in the following manner:

It shall be the duty of the chairman of the board of directors of the Federal reserve bank of the district in which each such bank is situated to classify the member banks of the said district who are stockholders in the said Federal reserve bank into three general groups or divisions. Each such group shall contain as nearly as may be one-third of the aggregate number of the banks holding stock in the Federal reserve bank of the said district and shall consist of banks of similar capitalization. The said groups shall be designated by number at the pleasure of the chairman of the Federal reserve bank.

At a regularly called directors' meeting of each national bank in the Federal reserve district aforesaid, the board of directors of such member bank shall elect by ballot one of its

own members as a district reserve elector and shall certify his name to the chairman of the board of directors of the Federal reserve bank of the district. The said chairman shall establish lists of the district reserve electors, class A, thus named by banks in each of the aforesaid three groups and shall transmit one list to each such elector in each group. Every elector shall, within fifteen days of the receipt of the said list, select and certify to the said chairman from among the names on the list pertaining to his group, transmitted to him by the chairman, one name, not his own, as representing his choice for Federal reserve director, class A. The name receiving the greatest number of votes, not less than a majority, shall be designated by said chairman as Federal reserve director for the group to which he belongs. In case no candidate shall receive a majority of all votes cast in any district, the chairman aforesaid shall establish an eligible list, including the three names receiving the greatest number of votes on the first ballot, and shall transmit said list to the electors in each of the groups of banks established by him. Each elector shall at once select and certify to the said chairman from among the three names submitted to him his choice for Federal reserve director, class A, and the name receiving the greatest number of such votes shall be designated by the chairman as Federal reserve director, class A.

Directors of class B shall be chosen at the same time and in the same manner hereinbefore prescribed for directors of class A, except that they shall in no case be officers or directors of any bank or banking association, and shall not accept office as such during the term of their service as directors of the Federal reserve bank. They shall be fairly representative of the commercial, agricultural or industrial interests of their respective districts. The Federal Reserve Board shall have power at its discretion to remove any director of class B in any Federal reserve bank, if it should appear at any time that such director does not fairly represent the commercial, agricultural or industrial interests of his district.

Three directors belonging to class C shall be chosen directly by the Federal Reserve Board one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed and shall be designated as "Federal reserve agent." In addition to his duties as chairman of the board of directors of the Federal reserve bank of the district to which he is appointed, he shall be required to maintain under regulations to be established by the Federal Reserve Board a local office of said board which shall be situated on the premises of the Federal reserve bank of the district. He shall make regular reports to the Federal Reserve Board, and shall act as its official representative

for the performance of the functions conferred upon it by this Act. He shall be paid an annual compensation to be fixed by the Federal Reserve Board and to be paid him monthly by the Federal reserve bank to which he is designated.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks for the first time, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank subsequent to the organization of such bank it shall be the duty of the directors of classes A and B and C each to designate one of its members whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years but the chairman of the board of directors of each Federal reserve bank designated by the Federal Reserve Board, as hereinbefore described, shall be removable at the pleasure of the said board without notice, and his successor shall hold office during the unexpired term of the director in whose place he was appointed.

#### INCREASE AND DECREASE OF CAPITAL.

SEC. 5. That shares of the capital stock of Federal reserve banks shall not be transferable, nor be hypothecated; in case a subscribing bank increases its capital, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to twenty per centum of the bank's own increase of capital, paying therefor the then book value of the shares of the reserve bank as shown by the last published statement of said bank. A bank applying for stock in a Federal reserve bank at any time after the formation of the latter must subscribe for an amount of the capital of said reserve bank equal to twenty per centum of the capital of said subscribing bank, paying therefor its then book value as shown by the last published statement of said reserve bank. When the capital of any Federal reserve bank has been increased, either on account of the increase of capital of the banks holding stock therein or on account of the increase in the number of stockholding banks, the board of directors shall make and execute a certificate to the Comptroller of the Currency show-

ing said increase in capital, the amount paid in, and by whom paid. In case a subscribing bank reduces its capital it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and if a bank goes into voluntary liquidation it shall surrender all of its holdings of the capital of said Federal reserve bank. In either case the shares surrendered shall be canceled and the bank shall receive in payment therefor a sum equal to their then book value as shown by the last published statement of said Federal reserve bank.

SEC. 6. That if any shareholder of a Federal reserve bank shall become insolvent and a receiver be appointed the stock held by it in said Federal reserve bank shall be canceled, and the balance of its value, after paying all debts due by such insolvent bank to said Federal reserve bank, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital of the banks holding its stock or of the liquidation or insolvency of any such bank holding stock therein, the board of directors shall make and execute a certificate to the Controller of the Currency showing such reduction of capital stock and the amount repaid to each bank.

DIVISION OF EARNINGS.

SEC. 7. That the earnings of each Federal reserve bank shall be disposed of in the following manner:

After the payment of all expenses and taxes, the shareholders shall be entitled to receive an annual dividend of five per centum on the paid-in capital, which dividend shall be cumulative. One-half of the net earnings, after dividend claims, as hereinbefore provided, have been met, shall be paid into the surplus fund until said fund shall amount to twenty per centum of the paid-in capital of such bank, and the remaining one-half shall be paid to the United States; and whenever and so long as the surplus fund of such Federal reserve bank amounts to twenty per centum of the paid-in capital and the shareholders shall have received the dividends at the rate of five per centum per annum hereinbefore provided for, all excess earnings shall be paid to the United States.

Every Federal reserve bank incorporated under the terms of this Act shall be exempt from Federal, State, and local taxation, except in respect to taxes upon real estate.

SEC. 8. That any national banking association heretofore organized may at any time within one year from the passage of this Act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights, and be subject to all the liabilities, of national banking associations

organized subsequent to the passage of this Act: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than a majority of the capital stock of the association. Any national banking association now organized which shall not, within one year after the passage of this Act, become a national banking association under the provisions hereinbefore stated, or which shall fail to comply with any of the provisions of this Act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have previously been incurred.

SEC. 9. That any bank or banking association incorporated by special law of any State or of the United States, or organized under the general laws of any State of the United States, and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of this Act, may, by the consent in writing of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national banking association under its former name or by any name approved by the comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed for associations originally organized as national banking associations under this Act.

STATE BANKS AS MEMBERS.

SEC. 10. That from and after the passage of this Act any bank or banking association or trust company incorporated by special law of any State, or organized under the general laws of any State or the United States, may make application to the Federal Reserve Board hereinafter created for the right to subscribe to the stock of the Federal reserve bank organized within the Federal reserve district where located. The Federal Reserve Board may, at its discretion, subject to the provisions of this section, entitle such applying bank to become a stockholder in the Federal reserve bank of the district in which such applying bank is located, or at its discretion may reject such applica-

tion or cancel the membership of a bank. Whenever the Federal Reserve Board may entitle such an applying bank to become a stockholder in the Federal reserve bank of the district in which the applying bank is located, stock shall be issued and paid for under the rules and regulations in this Act provided for national banks which become stockholders in Federal reserve banks.

It shall be the duty of the Federal Reserve Board to establish by-laws for the general government of its conduct in acting upon applications made by the State banks and banking associations and trust companies hereinbefore referred to for stock ownership in Federal reserve banks. Such by-laws shall require of applying banks not organized under Federal law that they comply with the reserve requirements and submit to the inspection and regulation provided in this Act. No such applying bank shall be admitted to stock ownership in a Federal reserve bank unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the national banking Act, and conforms to the provisions herein prescribed for national banking associations of similar capitalization and to the regulations of the Federal Reserve Board.

If at any time it shall appear to the Federal Reserve Board that a banking association or trust company organized under the laws of any State or of the United States has failed to comply with the provisions of this section or the regulations of the board, it shall be within the power of the said board to require such banking association or trust company to surrender its stock in the Federal reserve bank in which it holds shares upon receiving from such bank the then book value of the said shares in current funds, and said Federal reserve bank shall upon notice from the Federal Reserve Board be required to suspend the designated banking association or trust company from further privileges of membership, and shall within thirty days of such notice cancel and retire its shares and make payment therefor in the manner herein provided.

#### FEDERAL RESERVE BOARD.

SEC. 11. That there shall be created a Federal Reserve Board, which shall consist of seven members, including the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, who shall be members ex officio, and four members chosen by the President of the United States, by and with the advice and consent of the Senate. The four members of the Federal Reserve Board chosen by the President and confirmed as aforesaid shall each receive an annual salary

of \$10,000; and the Comptroller of the Currency, as ex officio member of said Federal Reserve Board, shall, in addition to the salary now paid him as comptroller, receive the sum of \$5,000 annually for his services as a member of said board. Of those thus appointed by the President at least one shall be a person experienced in banking; and one shall serve for two, one for four, one for six, and one for eight years, respectively, and thereafter each member so appointed shall serve for a term of eight years unless sooner removed for cause by the President. Of the four persons thus appointed, one shall be designated governor and one vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to the supervision of the Secretary of the Treasury and board, shall be the active managing officer of the Federal Reserve Board.

The Federal Reserve Board shall have power to levy semi-annually upon the Federal reserve banks, in proportion to capital, an assessment sufficient to pay its estimated expenses for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, and after the organization of Federal reserve banks in the several districts, as herein provided, at a date to be fixed by the Reserve Bank Organization Committee hereinbefore created. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall continue to hold office or to act as a director of any bank or banking institution or Federal reserve bank; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur among the four members of the Federal Reserve Board chosen by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when chosen, shall hold office for the unexpired term of the member whose place he is selected to fill.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this Act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by national banking associations, the chief officer of which bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury, acting as the chairman of the Federal Reserve Board."

SEC. 12. That the Federal Reserve Board hereinafter established shall be authorized and empowered:

(a) To examine at its discretion the accounts, books, and affairs of each Federal reserve bank and to require such statements and reports as it may deem necessary.

(b) To require or on application to permit a Federal reserve bank to rediscount the paper of any other Federal reserve bank.

(c) To suspend for a period not exceeding thirty days (and to renew such suspension for periods not to exceed fifteen days) any and every reserve requirement specified in this Act:

(d) To supervise and regulate the issue and retirement of Treasury notes to Federal reserve banks.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty-one of this Act; or to reclassify existing reserve and central reserve cities and to designate the banks therein situated as country banks at its discretion.

(f) To require the removal of officials of Federal reserve banks for incompetency, dereliction of duty, fraud, or deceit.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend the further operations of any Federal reserve bank and appoint a receiver therefor.

(i) To perform the duties, functions, or services specified or implied in this Act.

REDISCOUNTS.

SEC. 13. That any Federal reserve bank may receive from any of its stockholders deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon solvent banks, domestic and foreign, or acceptances authorized by this Act.

Upon the indorsement of any member bank any Federal reserve bank may discount notes and bills of exchange arising out of commercial transactions; that is, notes and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act; but such definition shall not include notes or bills issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except notes or bills having a maturity of not

exceeding four months and secured by United States bonds or bonds issued by any State, county, or municipality of the United States. Notes and bills admitted to discount under the terms of this paragraph must have a maturity of not more than forty-five days.

Upon the indorsement of any member bank any Federal reserve bank may discount the paper of the classes hereinafter described having a maturity of more than forty-five and not more than one hundred and twenty days, when its own cash reserve exceeds thirty-three and one-third per cent. of its total outstanding demand liabilities; but not more than fifty per cent. of the total paper so discounted for any depositing bank shall have a maturity of more than sixty days.

Upon the indorsement of any member bank any Federal reserve bank may discount acceptances of such banks which are based on the exportation or importation of goods and which mature in not more than ninety days and bear the signature of at least one member bank in addition to that of the acceptor. The amount so discounted shall at no time exceed one-half the capital of the bank for which the rediscounts are made. The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank.

Any member bank may, at its discretion, accept drafts or bills of exchange drawn upon it having not more than six months sight to run and growing out of transactions involving the importation or exportation of goods; but no bank shall accept such bills to an amount equal in the aggregate to more than one-half the face value of its paid-up and unimpaired capital.

SEC. 14. Whenever in the opinion of the Federal Reserve Board the public interest so requires, the Federal Reserve Board may authorize the reserve bank of the district to discount the direct obligations of member banks, secured by the pledge and deposit of satisfactory securities; but in no case shall the amount so loaned by a Federal reserve bank exceed three-fourths of the actual value of the securities so pledged or one-half the amount of the paid-up and unimpaired capital of the member bank.

OPEN-MARKET OPERATIONS.

SEC. 15. That any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, either from or to domestic or foreign banks or individuals, bankers' bills, cable transfers,

and bills of exchange of the kinds and maturities by this Act made eligible for rediscount.

Every Federal reserve bank shall have power (a) to deal in gold coin and bullion both at home and abroad, to make loans thereon, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds; (b) to invest in United States bonds and in short-time obligations of the United States or its dependencies or of any State or foreign Government; (c) to purchase from member banks and to sell, with or without its indorsement, checks or bills of exchange arising out of commercial transactions, as hereinbefore defined, payable in foreign countries; but such bills of exchange must have not exceeding ninety days to run and must bear the signature of two or more responsible parties, of which the last shall be that of a subscribing bank; (d) to establish each week, or as much oftener as required, subject to review and determination of the Federal Reserve Board, a minimum rate of discount to be charged by such bank for each class of paper, which shall be made with a view to accommodating the commerce of the country and promoting a stable price level; and (e) with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting foreign bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, checks or prime foreign bills of exchange arising out of commercial transactions which have not exceeding ninety days to run and which bear the signature of two or more responsible parties.

#### GOVERNMENT DEPOSITS.

SEC. 16. That all moneys now held in the general fund of the Treasury shall, upon the direction of the Secretary of the Treasury, within twelve months of the passage of this Act, be deposited in Federal reserve banks, which shall act as fiscal agents of the United States; and thereafter the revenues of the Government shall be regularly deposited in such banks, and disbursements shall be made by checks drawn against such deposits.

The Secretary of the Treasury shall, from time to time, apportion the funds of the Government among the said Federal reserve banks, and may, at his discretion, charge interest thereon and fix, from month to month, a rate which shall be regularly paid by the banks holding such deposits: *Provided*, That no Federal reserve bank shall pay interest upon any deposits except those of the United States.

The Government of the United States and the banks depositing in the Federal reserve banks shall be the only depositors in said reserve banks. All domestic transactions of the Federal reserve banks involving a rediscount operation or the creation of deposit accounts shall be confined to the Government and the depositing banks, with the exception of the purchase or sale of Government or State securities, or securities of foreign Governments, or of gold coin or bullion.

#### NOTE ISSUES.

SEC. 17. That an issue of Federal Reserve Treasury notes not to exceed \$500,000,000 and in addition thereto a sum equal to the difference between the total amount of national bank notes outstanding at any given moment and the amount of such notes outstanding at the passage of this Act is hereby authorized. The said notes shall purport on their faces to be the obligations of the United States, and shall be issued, at the discretion of the Federal Reserve Board, and solely for the purpose of making advances to Federal reserve banks, as hereinafter set forth. They shall be receivable for all taxes, customs, and other public dues, and shall be redeemed in gold on demand at the Treasury Department in the city of Washington, District of Columbia, or at any Federal reserve bank; and when deposited with such bank for redemption may be charged off by said bank against Treasury balances on its books, or may be paid out of its lawful money funds specifically set apart for their redemption.

Any Federal reserve bank may, upon vote of its directors, make application to the Federal Reserve Board through the local Federal reserve agent for such amount of the Treasury notes hereinbefore provided for as it may deem best. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral security to protect the notes for which application is made, equal in amount to the sum of the notes thus applied for. The collateral security thus offered shall be notes and bills accepted for rediscount under the provisions of sections thirteen, fourteen, and fifteen of this Act, and the Federal Reserve Board shall be authorized at any time to call upon a Federal reserve bank for additional deposits of security.

Whenever any Federal reserve bank shall pay out or disburse Federal reserve Treasury notes of the issue herein provided it shall segregate in its own vaults and shall carry to a special account on its books gold or lawful money equal in amount to thirty-three and one-third per centum of the Treasury notes so paid out by it. The Federal Reserve Board shall have power, in its discretion, to require Federal reserve banks

to maintain on deposit in the Treasury of the United States a sum in gold or lawful money equal to five per centum of such amount of Federal Reserve Treasury notes as may be issued to them under the provisions of this Act; but such five per centum shall be counted and included as part of the thirty-three and one-third per centum reserve hereinbefore required. The said Board shall also have the right to grant in whole or in part or to reject entirely the application of any Federal Reserve bank for Federal Reserve Treasury notes; but to the extent and in the amount that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, deposit Treasury notes with the bank so applying, and such bank shall be charged with the amount of such notes and shall pay such rate of interest on said amount as may be established by the Federal Reserve Board, and the amount of such Treasury notes so issued to any such bank shall, upon delivery, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve Treasury notes by the deposit of Federal reserve Treasury notes whether issued to such bank or to some other member bank, other lawful money of the United States, or gold bullion, with the Federal reserve agent or with the Treasurer of the United States, and such reduction shall be accompanied by a corresponding reduction in the reserve fund of lawful money set apart for the redemption of said notes and by the release of a corresponding amount of the collateral security deposited with the local Federal reserve agent.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of Federal reserve Treasury notes deposited with it and shall at the same time substitute other collateral of equal value approved by the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board.

It shall be the duty of every Federal reserve bank to receive on deposit, at par and without charge for exchange or collection, checks and drafts drawn upon any of its depositors or by any of its depositors upon any other depositor and checks and drafts drawn by any depositor in any other Federal reserve bank upon funds to the credit of said depositor in said reserve bank last mentioned. The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds at par among Federal Reserve Banks, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, and may also require each such bank to exercise the functions of a clearing house for its shareholding banks.

SEC. 18. That no national banking association shall be entitled to receive from the Comptroller of the Currency or to issue circulating notes in excess of the total amount of such notes which such bank may have outstanding at the passage of this Act, and no national banking association which may in future reduce its outstanding circulating notes in the manner prescribed by law shall hereafter be entitled to receive from the Comptroller of the Currency or to issue circulating notes in excess of the sum to which its outstanding notes shall have been reduced by such withdrawals.

SEC. 19. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the Act of June twentieth, eighteen hundred and seventy-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes, as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States United States registered bonds to an amount, where the capital is \$150,000 or less, not less than one-fourth of its capital stock, and \$50,000 where the capital is in excess of \$150,000, be, and the same is hereby, repealed.

#### REFUNDING BONDS.

SEC. 20. Upon application the Secretary of the Treasury shall exchange the two per centum bonds of the United States bearing the circulation privilege theretofore deposited by any national banking association with the Treasurer of the United States as security for circulating notes for three per centum bonds of the United States without the circulation privilege, payable after twenty years from date of issue, and exempt from Federal, State, and municipal taxation both as to income and principal. When and in proportion as the outstanding two per centum bonds deposited with the Treasurer shall be thus exchanged or refunded, the power of national banks to issue circulating notes secured by United States bonds shall cease and terminate. Every national bank may continue to apply for and receive from the Comptroller of the Currency circulating notes under the conditions provided by this Act, but no national bank shall be permitted to issue circulating notes of any description or to issue or to make use of any substitute for such circulating notes in the form of clearing-house certificates, cashier's checks, or other obligation not specifically provided for under this Act, and no national bank shall, without consent of the Secretary of the Treasury, in any one year present two per centum bonds for exchange in the manner hereinbefore provided to an

amount exceeding five per centum of the total amount of bonds on deposit with the Treasurer by said bank at the time of the passage of this Act. At the expiration of twenty years from the passage of this Act every holder of United States two per centum bonds then outstanding shall receive in exchange three per centum bonds of like denomination payable twenty years from date of issue, and without the circulation privilege. After twenty years from the date of the passage of this Act national bank notes still remaining outstanding shall be recalled and redeemed by the national banking associations issuing the same within a period and under regulations to be prescribed by the Federal Reserve Board, and notes still remaining in circulation at the end of such period shall be secured by an equal amount of lawful money deposited in the Treasury of the United States by the banking associations originally issuing such notes.

#### BANK RESERVES.

SEC. 21. That within sixty days from and after the date when the Secretary of the Treasury shall have officially announced, in such manner as he shall elect, the fact that a Federal reserve bank has been established, every national banking association shall establish with the Federal reserve bank of its district a credit balance on the books of the latter institution equal to not less than three per centum of its own total demand liabilities, exclusive of circulating notes, and at the end of fourteen months from the date fixed by the Secretary of the Treasury shall increase the said three per centum to five per centum. Such balance may at any time be increased, but shall at no time be allowed to fall below the amounts aforesaid.

From and after the date set by the Secretary of the Treasury and officially announced by him as hereinbefore provided, it shall be the duty of national banking associations now classified as country banks and situated outside of central reserve and reserve cities to maintain a reserve equal to fifteen per centum of the aggregate amount of their deposits. Such reserve shall consist of five per centum of lawful money held actually in their own vaults and for a period of fourteen months from the date aforesaid shall consist of at least three per centum and thereafter of at least five per centum, with its district Federal reserve bank. The remainder of the fifteen per centum reserve hereinbefore required may for a period of thirty-six months from and after the date set by the Secretary of the Treasury, as hereinbefore provided, consist of balances due to a national bank in reserve or central reserve cities as now defined by law. From and after a date thirty-six months subsequent to the date set by the Secretary of the Treasury, as hereinbefore provided, the

said remainder of the fifteen per centum reserve required of country banks shall consist either of lawful money in its own vaults or of balances on deposit with the Federal reserve bank of its district or both: *Provided*, That the Federal Reserve Board may, in its discretion, permit said remainder of fifteen per centum reserve required of country banks to consist of balances on deposit with any bank in a reserve or central reserve city as defined by law.

#### BANKS IN RESERVE CITIES.

From and after the date set by the Secretary of the Treasury for the incorporation of the Federal reserve bank within such district it shall be the duty of the national banks in such reserve cities to maintain for a period of twenty-six months a reserve of twenty-five per centum of their outstanding deposits and for twelve months thereafter a reserve of twenty-two and one-half per centum, and at the end of thirty-eight months, and permanently thereafter, a reserve of twenty per centum of their outstanding deposits. For sixty days from the date set by the Secretary for the organization of the reserve bank in such district each national bank in the reserve cities shall maintain in its own vaults, in lawful money, a sum equal to twelve and one-half per centum of its outstanding deposits and thereafter a sum of lawful money equal to ten per centum of its deposits. The additional legal reserve above the lawful money required in its own vaults may be kept either with the Federal reserve bank or with a reserve agent in the central reserve cities, for a period not exceeding thirty-six months from the organization of the Federal reserve bank in such district: *Provided, however*, That the requirement of a balance of three per centum and five per centum, respectively, of its deposits with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.

#### CENTRAL RESERVE CITY BANKS.

The national banks in central reserve cities, for a period of fourteen months, shall maintain a reserve, in lawful money, equal to twenty-five per centum of their deposits and thereafter, for a further period of twelve months, a reserve in lawful money equal to twenty-two and one-half per centum of their deposits and after twenty-six months they shall maintain a reserve in lawful money equal to twenty per centum of their outstanding deposits. For a period of sixty days after the passage of this Act each such bank shall maintain, in its own vaults, in lawful money, a sum equal to twenty per centum of

ts deposits, and thereafter, in lawful money, ten per centum of its deposits. It shall be optional with such banks to keep their reserve, in addition to the lawful money required to be kept by them as aforesaid, either in their own vaults or as a deposit with the Federal reserve bank of the district in which such national bank is located: *Provided, however,* That the requirement of a balance of three per centum and five per centum respectively, with the Federal reserve bank of its district, as hereinbefore provided, shall not be diminished.

SEC. 22. That so much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve as provided in the Act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

SEC. 23. That every Federal reserve bank shall at all times have on hand in its own vaults, in gold or lawful money, a sum equal to not less than thirty-three and one-third per centum of its outstanding demand liabilities.

#### BANK EXAMINATIONS.

SEC. 24. That the examination of the affairs of every national banking association authorized by existing law shall take place at least twice in each calendar year and as much oftener as the Federal Reserve Board shall consider necessary in order to furnish a full and complete knowledge of its condition. The Secretary of the Treasury may, however, at any time direct the holding of a special examination. The person assigned to the making of such examination of the affairs of any national banking association shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this Act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Federal Reserve Board and shall be annually reported to Congress. But the expense of the examinations herein provided for shall be assessed by the Federal Reserve Board upon the associations examined in proportion to assets or resources held by such associations upon a date during the year in which said

examinations are held to be established by the Federal Reserve Board. The Comptroller of the Currency shall so arrange the duties of national bank examiners that no two successive examinations of any association shall be made by the same examiner.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal Reserve Board, arrange for special or periodical examination of the member banks within its district. Such examination shall be so conducted as to inform the Federal reserve bank under whose auspices it is carried on of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times be bound to furnish to the Federal Reserve Board such information as may be demanded by the latter concerning the condition of any national banking association organized within the district in which the said Federal reserve bank is located, and it shall have power at all times to order special examinations without notice, for the purpose of ascertaining the condition of a member bank.

The Federal Reserve Board shall as often as it deems best, and in any case not less frequently than four times each year, order an examination of national banking associations in reserve cities. Such examinations shall show in detail the total amount of loans made by each bank on demand, on time, and the different classes of collateral held to protect the various loans.

SEC. 25. That no national bank shall hereafter make any loan or grant any gratuity to any examiner of such bank. Any bank offending against this provision shall be deemed guilty of a misdemeanor and shall be fined not more than \$1,000, and a further sum equal to the money so loaned or gratuity given; and the officer or officers of a bank making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor and shall be fined not to exceed \$500. Any examiner accepting a loan or gratuity from any bank examined by him shall be deemed guilty of a misdemeanor and shall be fined not more than \$500, and a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner. No national bank examiner shall perform any other service for compensation while holding such office.

No officer or director of a national bank shall receive or be beneficiary, either directly or indirectly, of any fee, brokerage, commission, gift, or other consideration for or on account of any loan, purchase, sale, payment, exchange, or transaction made by or on behalf of a national bank of which

he is such officer or director. Any person violating any provision of this Act shall be punished by a fine of not exceeding \$5,000, or by a term in the penitentiary not exceeding three years, or both such fine and imprisonment.

SEC. 26. That from and after the passage of this Act the stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure. Section fifty-one hundred and fifty-one, Revised Statutes of the United States, is hereby reenacted except in so far as modified by this section.

#### LOANS ON FARM LANDS.

SEC. 27. That any national banking association not situated in a reserve city or central reserve city may make loans secured by improved and unencumbered farm land, and so much of section fifty-one hundred and thirty-seven of the Revised Statutes as prohibits the making of such loans by banks so situated shall be, and the same is hereby, repealed; but no such loan shall be made for a longer time than nine months, nor for an amount exceeding fifty per centum of the actual value of the property offered as security, and such property shall be situated within the Federal reserve district in which the bank is located. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus, or fifty per centum of its time deposits.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

#### FOREIGN BRANCHES.

SEC. 28. That any national banking association possessing a capital of \$1,000,000 or more may file application with

the Federal Reserve Board, upon such conditions and under such circumstances as may be prescribed by the said board, for the purpose of securing authorization to establish branches in foreign countries for the furtherance of the foreign commerce of the United States and to act, if required to do so, as fiscal agents of the United States. Such application shall specify, in addition to the name and capital of the banking association filing it, the foreign country or countries or the dependencies of the United States where the banking operations proposed are to be carried on and the amount of capital set aside by the said banking association filing application for the conduct of its foreign business at the branches proposed by it to be established in foreign countries. The Federal Reserve Board shall have power to reject such application if, in its judgment, the amount of capital proposed to be set aside for the conduct of foreign business is inadequate or if for other reasons the granting of such application is deemed inexpedient.

Every national banking association which shall receive authorization to establish branches in foreign countries shall be required at all times to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each such branch as a separate item.

SEC. 29. That all provisions of law inconsistent with or superseded by any of the provisions of this Act be, and the same are hereby, repealed.







END OF  
TITLE

98-84331-11

New York Chamber of  
Commerce

Report of Committee on  
Finance and Currency...

[Albany?]

[1913]

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New York Chamber of Commerce. Committee on Finance and Currency. Report of  
Committee on Finance and Currency ... on the Federal Reserve Act [microform].  
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CHAMBER OF COMMERCE  
OF THE  
STATE OF NEW YORK

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Report of  
Committee on Finance and Currency  
(and members of the Chamber associated therewith  
for the purpose of this inquiry)  
on the  
FEDERAL RESERVE ACT

---

THIS REPORT WILL BE ACTED UPON AT THE SPECIAL MEETING  
TO BE HELD MONDAY, OCTOBER 20, 1913, AT 12:30 P. M.  
AND IS SENT TO MEMBERS IN ADVANCE  
FOR THEIR CONSIDERATION

# REPORT

ON

## THE FEDERAL RESERVE ACT

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*To the Chamber of Commerce:*

Your Standing Committee on Finance and Currency composed of seven bankers, having been enlarged by the addition of eleven merchants, for the purpose of the consideration and report upon the Federal Reserve Act (H. R. 7837) now pending in the United States Senate, has made careful study of this important bill; and now respectfully submits its report. This report was first adopted by a subcommittee of five merchants, and later by the full committee of eighteen. Its conclusions are based upon an independent study of the provisions of the bill, which study was illumined by the instructive discussion of the measure at the recent conference conducted by the Academy of Political Science. The two sessions of the conference held in the Hall of the Chamber, were attended by hundreds of the members of the Chamber, who listened with the deepest interest to the statements of Chairman OWEN of the Senate Committee on Finance and Currency and Representative BULKLEY of the House Committee on Finance and Currency, and the debate which followed. In order that our membership might be further prepared to act intelligently upon this measure, a copy of the Federal Reserve Act was mailed to each member; and moreover a copy of this report has been sent to the members in advance of the special meeting called to pass upon it.

Your committee believes that experience is the greatest asset as it is also the surest guide to wisdom and the best preventive of errors in judgment, in professional, political, commercial and industrial life.

If there is one phase of the complex conditions of modern business in which more than another the wisdom gained by experience should obtain and be expressed it is in the Currency and Banking system of any great nation and in its administration.

For reasons which it is not necessary to discuss or review here, the United States has long rested under a system unscientific, if not indeed unsound, which has proven inadequate to stand the strain of stressful

times; and with many serious restraints and setbacks has achieved its material progress in spite of, rather than because of the structure of its financial system.

Yet all the while we have had the example of other great nations pursuing their way through wars and pestilence, through fire and floods, through collapse of unwise speculation and shrinkage of security values with no disastrous disturbance or serious interruption to the progress of their productive energies and the interchange of commodities.

Experience, therefore, lies ready at our hand. Shall we avail ourselves of it?—and grasping the fundamental principles which underlie all successful systems, differing only in details, apply them to our own needs and conditions with equally beneficent results?

It is the conviction of your committee that such has been the intention of the Federal Congress and Administration, and if we differ with them in our views as to the methods to be employed it is because we believe that some of the provisions in the present bill will not permit of the free play and influence of some of those principles which it has attempted to recognize and which experience has proved are fundamentally necessary to security, flexibility and fluidity of credit and exchange.

We should be untrue to ourselves and to the record of this Chamber on the Banking and Currency question if we failed to point out what we believe to be the ideal solution, and frankly recognizing, that, because of the complex conditions in our country, the ideal may be unattainable at this time, to suggest such changes in the present Bill as we believe of vital importance to accomplish the ends which the needs of our commerce demand and which the security and advancement of our industrial and financial existence require.

The ideal solution, in our judgment, would be one Central Reserve Association dealing only with member banks and the government; issuing currency against commercial notes having a definite and limited maturity, redeemable in gold and protected by an adequate gold reserve, this currency to be the obligation of the Central Reserve Association issuing it and not involving the credit of the Government for its guarantee or redemption; other outstanding forms of currency to be gradually retired; the Government to use the Reserve Association as its depository and fiscal agent and to be adequately represented on its Board of Management; its operation generally to be under Government supervision but not under absolute political control.

If this solution is not attainable at this time, recognizing that the present Bill contains some features greatly superior to the existing system, your committee urges amendments to the proposed Act in the following particulars:—

1. The reduction in the number of Federal Reserve Banks to not exceeding four, with powers to operate branches within their own Federal Reserve District.

NOTE.—If the desired strength resulting from the concentration of reserves is really to be obtained, and if in times of emergency there is to be a greater strength by unity of action of the reserve banks, with a small number of Federal Reserve Banks, co-operation tending to approximate the advantages of a single Reserve Reservoir might be possible. With twelve or more we believe that would be difficult and improbable and that there would in emergencies be likely to develop the same individual struggle for reserves that we have seen cause disaster before. The fewer their number, the greater their strength would be in proportion, and the greater therefore the sense of security in the minds of all the people in their respective districts, a factor which must not be overlooked, for timidity and fear breed panics.

With too many districts it is entirely possible that in some of the larger centers there would be a number of joint stock banks and possibly even of private banks of greater financial power than the Federal Reserve Bank of that district, which, in itself, would deprive the latter of much of its expected influence, and of the confidence of the people.

Four Reserve Banks as the maximum suggested by your committee, would amply permit North, South, and West to be fully embraced.

2. That membership in the Federal Reserve Banks be made of such importance to the National Banks that it need not be made compulsory.

3. The retirement as promptly as possible of existing national bank notes by the purchase by the Government at par of the outstanding 2 per cent. bonds, or by some equitable arrangement by which the Federal Reserve Banks would take over these bonds from the National Banks.

NOTE.—This country has long since passed the point where it needs to sustain a market for its bonds by an arbitrary and artificial means, which operates to the disadvantage of its commerce and of its citizens by maintaining an inflexible currency.

On the other hand it is unjust that banks which have invested their funds in government bonds which did not return in interest and pro-

fits on circulation a sufficient sum out of which to create a Sinking Fund, should have to suffer loss by the withdrawal of the privilege or the substitution of a bond unmarketable at par.

4. That of the seven members of the Federal Reserve Board, not more than five should be appointed by the President, none of whom should hold other executive office, and not fewer than two should be elected by the member banks of the Regional Reserve Banks, and that the compensation of the members of the Federal Reserve Board should be not less than \$25,000 per annum each.

NOTE.—The present provision in the Bill designates three of the seven constituting the Federal Reserve Board from executive members of the Government charged with a multiplicity of duties in administration which must inevitably absorb so much of their time and thought that it is not apparent to your committee how they could possibly also exercise the important and responsible functions entailed upon members of the Federal Reserve Board.

In urging as strongly as we know how that at least two members of this Board should be elected by the member banks of the Federal Reserve Banks, your committee again refers to the opening paragraphs in this report, pointing out that experience in administration is, in its opinion, of vast importance, and while this proposal would preserve a majority and control for the government representatives this plan would assure beyond peradventure a minority of men trained and experienced in such special functions.

Private capital, and particularly banking capital, has been charged with being grasping and with the desire to take to itself great earnings, but even if this is true, private capital has shown great care in the selection and liberality in the compensation of men to place at the head of its banking institutions, and stockholders in banks of even moderate size have always been ready to pay to a talented man several times the salary provided for the members of the Federal Reserve Board in the present Bill. If private capital has indeed been grasping, it has been willing to pay large remuneration, because it believed that thereby it could secure high talent, and your committee believes that it will not be possible to secure the talent, experience and judgment requisite to administer the broad powers and responsibilities of the Federal Reserve Board at the compensation proposed in the present Bill.

5. That the rate of dividend to be allowed to member banks on their proportionate shares of the capital of their Regional Reserve Bank should be 6 per cent. instead of 5 and that all further profits of the Regional Reserve Banks should be paid over to the Government of the United States.

NOTE.—If the Federal Reserve Banks are to be in fact public utility institutions chiefly, if not solely, for the safeguarding of the commerce,

industry and financial operations of the country, they should be operated primarily for that purpose and not for profit beyond a reasonable return upon the necessary capital contributed, and member banks should be free from the influences or temptations to govern their relations with Regional Banks by expected further profits, which the present provisions in the Bill might tend to create.

6. That the Federal Reserve Notes be issued by the Federal Reserve Banks without guarantee by the Government.

NOTE.—It is questionable whether in the proposal to make these notes the obligations of the United States, the question has been considered from an International viewpoint as thoroughly as from a purely National one. Whether it desires to be so or not the United States is about as much affected by International monetary conditions as any of the foreign nations. Already the great nations of Western Europe as well as India in the East are engaged in an extraordinary struggle for the accumulation of increased gold reserves. Conceive of the conditions which might be caused by a great European conflagration of war intensifying this struggle for gold to titanic proportions. Possibly the citizens of the United States, no matter what domestic financial conditions arrive, may not create embarrassment by wholesale demands for redemption in gold; but rich as the United States is, it is still an immensely debtor nation and must continue to be so for many years, while there remain many natural resources to be developed and new industrial activities to be provided with capital, and moreover there remain enormous quantities of our securities held for investment abroad.

A European conflagration, and it has been perilously near at least twice within the past three years on the admission of the leading statesmen of Europe, would certainly result in an enormous foreign demand for gold, and the liquidation of our securities would dominate our International exchange market.

Conceivably, conditions might thus arise which would create such an ebb tide of gold that even the Federal Reserve Banks, if they were the issuers of the currency, could not stem or stop it, and in such an event the Government might have to come forward with its power and credit for the preservation of our domestic interests, but in that case the Government would be entering the lists with undiminished power on behalf of others and for the sustaining of other's credit and not entering the contest as a suppliant on its own behalf and for the preservation of its own credit, an immensely different position in strength and effectiveness than would exist if the Government itself had issued the notes.

Having these various considerations in view, your committee proposes the adoption by the Chamber of the following preamble and resolutions:

*Whereas*, We are keenly alive to the defects of our present banking system and to the great advantages to commerce and industry that will certainly follow the enactment of a law recognizing the correct principles governing a centralization of banking reserves and the creation of an elastic bank note currency ; and

*Whereas*, We believe that the measure which has passed the House of Representatives and is now pending in the Senate of the United States embraces in a considerable degree the recognition of those principles, and with necessary amendments may, if enacted into law, be of untold value to the commerce and industry of America ; and we are in strong sympathy with the desire of the Administration for the enactment of an adequate law ; therefore be it

*Resolved*, That the Chamber of Commerce of the State of New York recommends the enactment of the present measure, after such changes have been made as banking and commercial experience may indicate to be necessary for the practical working of the law, and that this body specifically recommends :

- (1) The reduction of the number of Federal Reserve Banks to not more than four (4) ;
- (2) That a strong effort be made to save the National Banking system from a loss in numbers through National Banks taking out State Charters, by making the provisions of the measure sufficiently satisfactory to banks to obtain their co-operation, and, if possible, to secure the accession of State Banks and Trust Companies to the Federal Reserve organization, so that the measure will tend to unify our banking system ;
- (3) That provision be made for a speedier retirement of the present bond-secured national bank note circulation by the redemption of government bonds now securing circulation, in order as promptly as possible to make room for a sufficient amount of the new notes to give true elasticity to the currency ;
- (4) That at least two members of the Federal Reserve Board shall be elected by the member banks of the Federal Reserve Banks, and that the members to be appointed by the President shall not hold other executive offices ;
- (5) That after paying 6 per cent. dividend on the capital of the Federal Reserve Banks that any further profits shall be paid into the treasury of the United States Government ;
- (6) That the proposed note issue be the obligations of the Federal

Reserve Banks issuing the notes and not of the United States ; and be it further

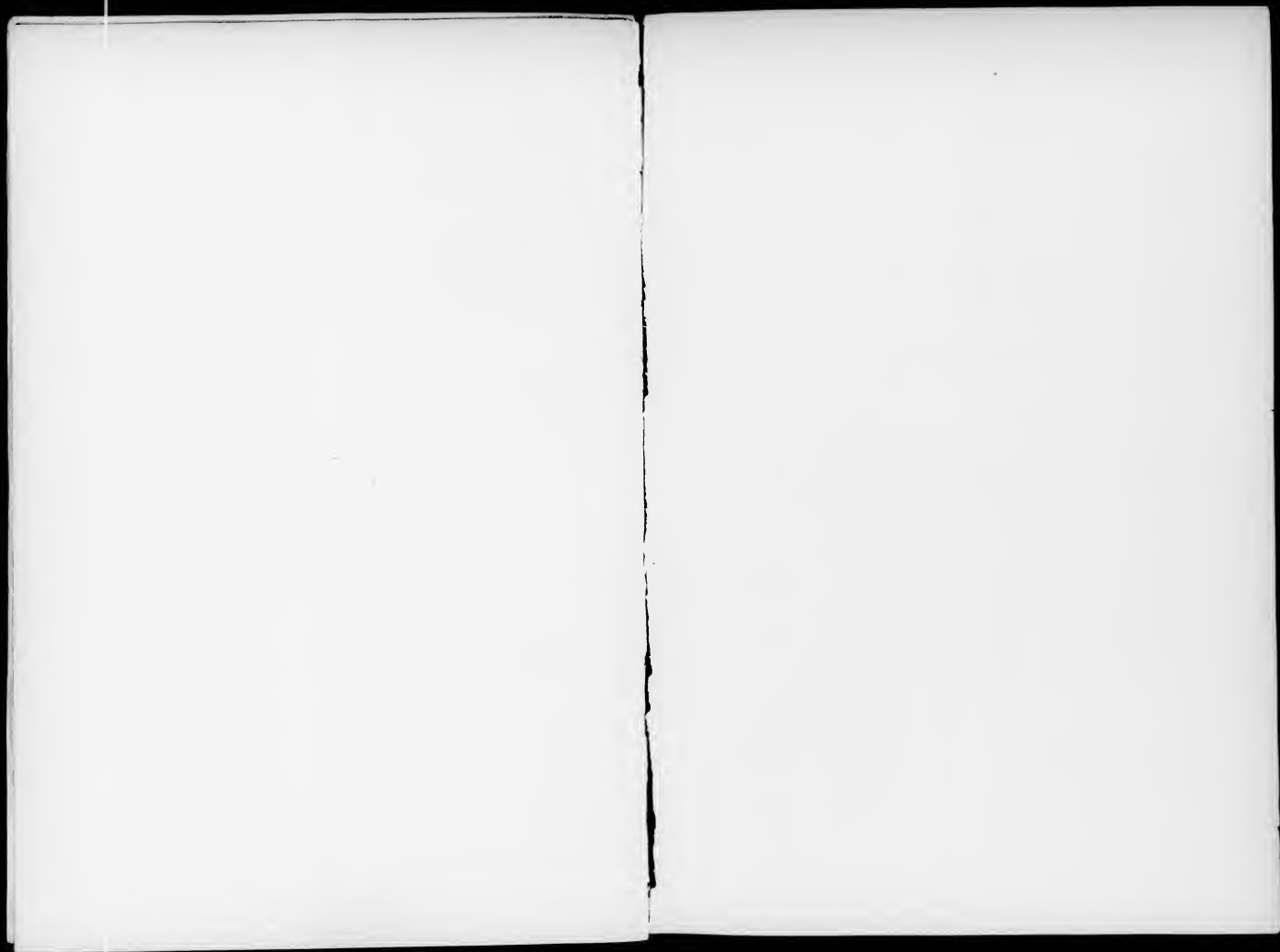
*Resolved*, That if the pending measure be amended so as to conform in fundamental principles and administration to the approved practices of world banking in security and flexibility, we urge upon the management of National Banks a broad and unselfish view and a hearty co-operation, believing that any temporary inconvenience arising from changed methods will be far more than compensated by advantages which will flow from a sound banking and currency system that will benefit the commerce of the whole country.

Respectfully submitted,

(Signed) CORNELIUS N. BLISS, JR.,  
JOHN CLAPLIN, *President*,  
RALPH L. CUTTER,  
OTTO L. DOMMERICH,  
ALEXANDER J. HEMPHILL,  
AUGUSTUS D. JULLIARD,  
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EUGENIUS H. OUTERBRIDGE,  
WILLIAM JAY SCHIEFFELIN,  
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FRANK A. VANDERLIP, *Chairman*,  
CLARENCE WHITMAN,  
ALBERT H. WIGGIN,

*of the Committee  
on Finance and  
Currency and Mem-  
bers of the Chamber  
associated there-  
with for the con-  
sideration of this  
subject.*

NEW YORK, October 16, 1913.





**END OF  
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98-84331-12

Institute of Bankers  
(Great Britain)

Examinations for the  
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London

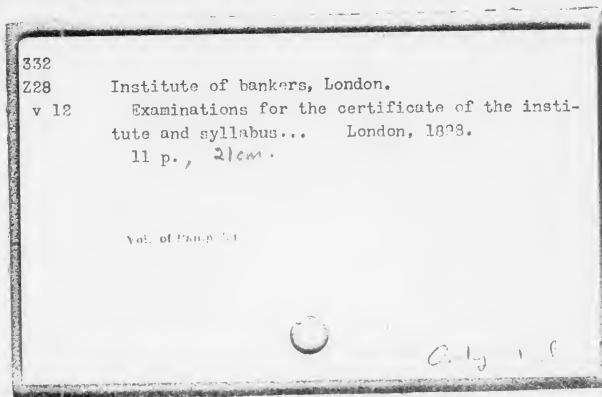
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# The Institute of Bankers.

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FOR THE

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AND

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*Examinations, 1898.—May 9th, 10th, 11th, 12th.*

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London:

EAST & BLADES, PRINTERS, 23, ABCHURCH LANE, E.C.

1898.



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(And FRENCH—Voluntary Subject).

The Examinations will be divided into two parts, extending over a period of two years, the first Examination being of a preliminary character, and the second—to be held after the lapse of not less than one year from the first—being of a more advanced character.

These Examinations, both preliminary and final, will be held in the month of May in each year. Candidates must, however, before the 1st April in each year, give notice to the Secretary of their intention to present themselves for Examination.

Every Candidate who shall fail to pass in one or more subjects either in the preliminary or final Examination, shall be required to pass at a later date in those subjects only in which he has failed ; but he may proceed to the final Examination in those subjects in which he has passed the preliminary.\*

A certain minimum of marks shall be required in each subject to enable a Candidate to pass, and the names of successful Candidates, at each Examination, shall be placed alphabetically in the official list which will appear in the *Journal* of the Institute.

Subject to the approval by the Council of the Report of the Examiners, a Memorandum, signed by the Secretary, shall be given to those who pass the preliminary Examination ; but the Certificate of the Institute, signed by the President of the Institute and the Chairman of the Council, shall not be issued until the final Examination has also been passed.

The Certificate of the Institute, so given, shall entitle a Member to be elected an Associate.

The Examinations shall be held by means of printed papers, and as far as practicable, in various places simultaneously, as may be needed to meet the convenience of Candidates.

\* Except as regards French (See note on p. 10), and German (See note on p. 11).

The Examinations in the country will probably be conducted under the superintendence of a Fellow of the Institute, to whom the printed papers will be forwarded in a sealed packet. These papers shall be opened in the presence of the Candidates, at the time of the Examinations, and answers thereto shall be transmitted to the Council by the next post.

An Entrance Fee of Five Shillings shall be required from every Candidate on each occasion of sending in his name for Examination, such Fee to cover all the subjects taken up at any one period of Examination.

No Candidate shall be admitted to any Examination unless he have previously paid this Fee to the Secretary; and if, after payment of his Fee, a Candidate withdraws his name, or fails to present himself for Examination, the Fee shall not be returned to him.

An official receipt for the said Fee, stating thereon the Candidate's name and address in full, signed by the Secretary, shall be given to each Candidate, and the presentation of this receipt to the Superintendent, at the time of Examination, shall invariably be required.

Candidates are informed that bad handwriting may be visited with loss of marks, and that the general style and intelligence of the answers will always be taken into account.

No information whatever will be given respecting the marks obtained, or the names of unsuccessful Candidates.

*Whilst the best efforts will be made to secure Examinations for Country Members in their neighbourhoods, the Council do not guarantee the carrying out of this arrangement in all cases.*

#### EXAMINERS.

POLITICAL ECONOMY	- - -	
MERCANTILE LAW	- - -	MR. J. R. PAGET.
ARITHMETIC AND ALGEBRA	- - -	WILLIAM BROWN, B.Sc.
BOOK-KEEPING	- - -	C. FITCH KEMP, Fellow and Member of the Council of the Institute of Accountants.
PRACTICAL BANKING	- - -	A COMMITTEE OF THE COUNCIL.
FRENCH	- - -	PROFESSOR H. LALLEMAND.

## REVISED SYLLABUS.

SESSION 1897-1898, AND UNTIL FURTHER NOTICE.

### ARITHMETIC AND ALGEBRA.

#### PRELIMINARY EXAMINATION.

Vulgar and Decimal Fractions.

Involution and Evolution.

Percentages—Simple and Compound Interest. Discount (Bankers' and True).

Profit and Loss—Purchase and Sale of Stocks and Shares.

Metric Tables—International Exchange.

Algebra—Four simple Rules, Brackets, Resolution into Factors.

Algebraical Fractions—Simple and Simultaneous Equations.

Problems leading to these Equations.

#### Books recommended:—

Pendlebury's Arithmetic, 4/6; or Muir's Arithmetic (Isbister and Co.) 4/6; or Brook Smith's Arithmetic, 4/6; Hall and Knight's Elementary Algebra, 4/6 (Macmillan and Co.)

#### FINAL EXAMINATION.

*This will be divided into two parts, the first of which only will be necessary to pass the Examination. Any candidate, however, desiring to pass with distinction must at the same Examination satisfy the Examiner in Part II. Both parts will be included in one Examination Paper.*

I. For a Simple Pass:—Metric System, Proportion and Percentages, Methods of Prediction, Interest, Annuities, Stocks, Accounts and Balances, Exchanges and Exchange Operations; the above being treated arithmetically.

II. For a Pass with Distinction:—All the above and, in addition, the following algebraical subjects: Ratio, Proportion, Variation Arithmetical and Geometrical Progressions, Notation, Surds, Indices, Quadratic Equations, Combinations, Binomial Theorem, Logarithms, Exponential and Logarithmic Series, Interest Annuities, Sinking Funds, Repayment of Bonds, Valuation of Leaseholds.

*No particular course of reading is insisted on, but the following books are recommended:—*

Hall and Knight's Higher Algebra, 7/6. (Macmillan and Co.)  
Jackson's Commercial Arithmetic (Arithmetical part only) Macmillan, 3/6.

Thomson's Treatise on Arithmetic (Longman, Green & Co.) 3/6.  
The Article on Annuities in the "Encyclopædia Britannica."  
Institute of Actuaries' Text Book. Part I.: Interest Annuities Certain. (Wm. Sutton, M.A.) Pub E. and S. Layton, Farringdon Street, 10/6.

## BOOK-KEEPING.

## PRELIMINARY EXAMINATION.\*

Definitions.  
General Principles.

## FINAL EXAMINATION.

Double Entry.	{	Elucidation.
		Illustration.

## Books recommended :—

Jackson's Book-Keeping. 5/-.  
Double Entry *Elucidated*, by B. F. Foster. 3/6.  
Carter's Practical Book-Keeping. 7/6.  
Hamilton and Ball's Book-Keeping. 2/-.  
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## MERCANTILE LAW.

## PRELIMINARY EXAMINATION.†

Questions will be set on—

The Bills of Exchange Act, 1882, and those portions of the Stamp Act which relate to Bills, Notes and Cheques.

## FINAL EXAMINATION.

Elementary questions will be set on—

The general principles of Commercial Law, including, the Law of Bankruptcy.

Questions of a more advanced character on—

Law of Negotiable Instruments.

Candidates will not be expected to quote cases, but will be expected to give the reasons for their answers.

Books recommended, but not regarded as obligatory :—

*General Principles of Commercial Law.*

Chalmers' Sale of Goods. 10/-.  
Anson's Law of Contracts. 10/6.  
Byles on Bills of Exchange, 25/-; or  
Chalmers on Bills of Exchange. 12/6.  
Williams' Bankruptcy Act, 25/-; or  
Chalmers and Hough's Bankruptcy Act. 2/6 and 12/6.  
Pearson-Gees' Factors' Act, 3/- net.

\* Candidates who gained a memorandum of passing in Mr. Van de Linde's Lectures will be excused this part.

† Candidates who pass the Examination in Mr. Schuster's Lectures will be excused this part.

## POLITICAL ECONOMY.

## PRELIMINARY EXAMINATION.

Definition of Political Economy : its relation to other Studies.  
Analysis and Definition of its Leading Notions : Utility and Value, Wealth and Capital, Competition and Free Contract, Exchange and Market.

The Requisites of Production.

Division and Organization of Labour : Capitalistic Production, and the Different Functions of Capital.

Increasing and Diminishing Returns.

Normal and Market Values.

Theory of the Distribution of Wealth : Rent, Interest, and Earnings under Perfect Competition.

Actual Distribution of Wealth : Wages, Profits and Rents ; Trades' Unions ; Relations of Employer and Employed.

The Functions of Money.

The Principles of Currency, treated in an Elementary manner.

## FINAL EXAMINATION.

The Theory of Value.

The Principles of Money and Currency generally.

Credit.

International Trade.

The Theory of the Foreign Exchanges.

The Economic Principles of Banking.

The Money Market.

The History of Currency and Banking.

The Principles of Taxation and Public Finance.

No particular course of reading is insisted upon. Any clearly and accurately expressed knowledge of the subjects named will be favourably received, irrespectively of the authors, teachers, or opinions involved.

But, as many of the Candidates may be previously unacquainted with the Science, the following brief course of reading is recommended :—

## PRELIMINARY EXAMINATION.

1. Marshall's Elements of Economics.
2. Jevons' Money and the Mechanism of Exchange. 5/-.
3. Nicholson's Money and Monetary Problems. 7/6.
4. Bagehot's Lombard Street. 7/6.
5. Walker's Money, Trade and Industry. 7/6.

## FINAL EXAMINATION.

For the Final Examination the further books recommended are :—

1. Marshall's Principles of Economics. 12/6.
2. Clare's Money Market Primer. 5/-
3. Goschen's Theory of the Foreign Exchanges. 5/-
4. Clare's A.B.C. of the Foreign Exchanges.
5. Gilbart on Banking (Michie's Edition). 10/-.
6. Walker on Money. 16/-.
7. Jevons' Investigations in Currency and Finance. 21/-
8. Giffen's Essays on Finance (1st and 2nd Series). 10/6 each.
9. Bastable's Theory of International Trade. 3/6.

The following works may be read with advantage by Candidates desiring to extend their knowledge of the subjects indicated :—

- Jevons' Theory of Political Economy. 9/-
- Sidgwick's Principles of Political Economy (especially Book III). 16/-
- Walker's Wages Question. 16/-
- Adam Smith's Wealth of Nations. (McCulloch's Edition).
- Ricardo's Writings on Currency, Banking and Finance (see collected Works).
- Mill's Political Economy. 5/-
- Macleod's Theory and Practice of Banking.
- Palgrave's Notes on Banking. 6/-
- Graham's History of the £1 note in Scotland.
- Dana Horton's The Silver Pound and England's Monetary History.
- Walker's International Bimetallism.
- Giffen's Case against Bimetallism.
- Giffen's Stock Exchange Securities.
- Bastable's Public Finance.
- Ruding's Annals of the Coinage.
- Palgrave's Dictionary of Political Economy.
- Macleod's Dictionary of Political Economy.
- The Economic Journal.*
- Quarterly Journal of Economics.*
- Journal of the Institute of Bankers.*
- Journal of the Royal Statistical Society.*

## PRACTICAL BANKING.

## PRELIMINARY EXAMINATION.\*

Elementary questions on—

- Banking : its Nature and Functions.  
Principal Features distinguishing the various Classes of Banks.  
Definitions of Banking and Mercantile terms.  
Banking Operations.

## FINAL EXAMINATION.

Questions on—

The Ordinary Practice of Bankers in regard to—

- (a) Cash Accounts.
- (b) Bills Discounted.
- (c) Advances.
- (d) Deposit of valuables.

The Connection between a Country Bank and its London Agent.

The Bank of England : its Relation to Government, the Banks, and the Public.

Issue of Notes—England, Scotland and Ireland.

Banking Investments.

Advances upon Securities.

Exchanges.

Commercial Crises.

*Books recommended, but not regarded as obligatory.—*

- Gilbart's Principles and Practice of Banking. 16/-
- Leone Levi's History of British Commerce. 18/-
- Hankey's Principles of Banking. 2/6.
- Somers' Scotch Banks and their System of Issue. 7/6.
- Grant's Law of Bankers, with Appendix of Statutes in force. 26/-
- Hutchison's Practice of Banking.
- R. H. Inglis Palgrave's Notes on Banking. 6/-
- Rae's Country Banker. 7/6.
- Seyd's Bullion and Foreign Exchanges. 20/-
- Macleod's Theory and Practice of Banking. 30/- 2 Vols.
- Macleod's Elements of Banking. 5/-
- Journal of the Institute of Bankers.*
- Questions on Banking Practice. 2/6.
- Moxon's English Practical Banking. 2/6 net.
- Clare's Money Market Primer. 5/-
- Clare's A.B.C. of the Foreign Exchanges.
- Lloyd's Bills of Exchange.

\* Candidates who have passed the Gilbart Examination in 1888, 1889, 1890, 1891, 1892, 1893, 1894, 1895 or 1896, will be excused this part.

### ADDITIONAL AND VOLUNTARY SUBJECTS.

(1.) FRENCH.

### PRELIMINARY.

The Preliminary Examination will comprise the translation from French into English of G. Guizot's "Alfred Le Grand" (Hachette's Edition, with Notes), of simple passages and letters, some questions in grammar, and elementary questions relating to the French decimal system.

FINAL.\*

The Final Examination will comprise the translation from French into English of (1) Victor Hugo. *Extraits*, edited by H. Lallemand. (Hachette's Edition with Notes), and (2) J. G. Courcelle-Seneuil's *Les Operations de Banque* (7th Edition A. Liesse), 8 francs. Librairie Gillaumin et Cie, rue Richelieu 14, Paris, and also the translation from English into French of unseen paragraphs, and a business letter.

*Books recommended :—*

Alfred Le Grand, by G. Guizot (Hachette's Edition with Notes).  
2/-.

Victor Hugo. Extraits, edited by H. Lallemand (Hachette's Edition with Notes). 2/6.

Ragon's Correspondence. (Hachette). 3/6.

Hossfeld's English & French Correspondence. (Hirschfeld). 2/-.

A new English and French Vocabulary, by H. Lallemand and A. Ludwig. (Hirschfeld). 2/6.

C. Brown's Commercial French. (Hachette). 2/-.

Baume's General French Correspondence. (Hachette.) 2/6.

\* Candidates are not eligible to enter for this unless they have passed the Preliminary Examination in French and also in the five ordinary subjects.

(2.) GERMAN.

PRELIMINARY.

1. Translation from German into English of Oliver Cromwell, pages 36-93 in Pauli's Robert Blake and O. Cromwell. (Rivington, Percival and Co.)
2. Translations from German into English of pages 19-26 and 81-93 in Pressinger's German Commercial Reader. (Rivington, Percival and Co.)
3. Translation from German of an easy piece of "unseen."
4. Questions in German Grammar, which must be answered in German handwriting.
5. Translations into German of a few easy sentences. (German handwriting.)

*Books recommended.*

1. Robert Blake and O. Cromwell, by Pauli. (Rivington, Percival and Co.) 2/-
2. A German Commercial Reader, compiled by Prissinger. (Rivington, Percival & Co.) 2/-
3. Allgemeine Handelskorrespondenz. German Part 2/-. English Part, 2/- . (Berlin : Verlag für Handels- und Sprachwissenschaft.)
4. German Manuscript Reader. (Hachette & Co.) 3/6.

FINAL.\*

(Particulars will be announced later.)

\* Candidates are not eligible to enter for this unless they have passed the Preliminary Examination in German and also in the five ordinary subjects.

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on the Bank Monopoly  
Glasgow

1858

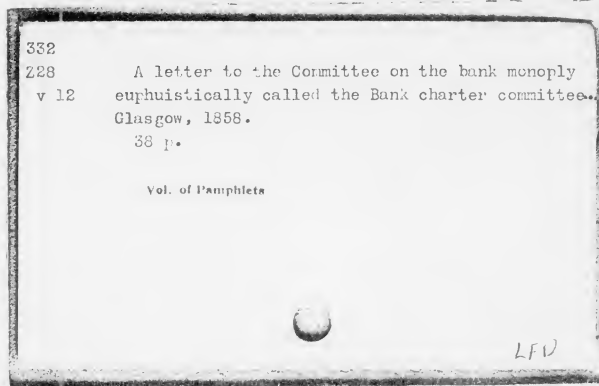
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# A LETTER

TO THE COMMITTEE ON THE

## BANK MONOPOLY,

EUPHUISTICALLY CALLED

### THE BANK CHARTER COMMITTEE.

"One of the most prominent characteristics of a truthful man is to  
"call things by their proper names; and those who adopt a contrary  
"course are not to be trusted—having their own purposes to serve."—  
*Moral Precepts.*

JAMES MACLEHOSE, GLASGOW;  
HAMILTON, ADAMS, & CO., LONDON;  
ROBERT MACLEHOSE, AYR.

1858.

13 March 1914 Mr. Hanson

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## A LETTER

TO THE COMMITTEE OF THE

# BANK MONOPOLY.

GENTLEMEN,

I CANNOT introduce this Letter to your notice better than by the following quotation from a speech of Lord Sydenham, when Mr. Poulett Thomson ; for however indisposed you might probably be to pay any attention to my observations, you cannot fail to recognise in his Lordship one of those who, both as a Statesman and as a Merchant, understood the subject in all its bearings. He said—

*"I have shown that in Principle the Monopoly of the Bank of England is monstrous—that in Practice it has been uniformly productive of the most ruinous consequences to the Public Interests. All the Whig Statesmen of this century and the last—Mr. Fox, Mr. Tierney, Mr. Horner, Mr. Huskisson, Mr. Ricardo, Mr. Grenfell—were of the same opinion. All the Political Economists, without exception, denounce the Bank Charter as a nuisance to be extinguished, an abuse not to be tolerated after the Expiration of the Charter."*

Of course, I am perfectly aware that a majority of your body have been selected by the Whipper-in, to carry out the wishes of the Government respecting the BANK MONOPOLY ; and although I would assuredly have preferred

more impartial judges; yet, as I have no alternative, I must be content to accept you as such, trusting not merely to the intrinsic merits of the measure about to be laid before you, but relying most confidently on that ultimate Court of Appeal to which we are equally amenable,  
PUBLIC OPINION.

The paragraph which I have quoted would only be weakened by any attempt of mine to support it. That which so many master minds have declared was "*productive of the most ruinous consequences to the public interests,*" must be considered to have produced such effects, even when the subject itself was of a doubtful character; but when speaking of a MONOPOLY, who can hesitate in pronouncing such declaration to be true, for how can a MONOPOLY be productive of anything but loss to the public, and that in a far greater ratio, than its profit to the individual.

Previous Committees on the BANK MONOPOLY have accepted as gospel truths, the evidence of money-dealers in support of the existing system—you are expected to do the same. Will you, therefore, permit me to remind you of one of the best of Æsop's Fables, and which has doubtless often occurred to you when any charlatan has endeavoured to inflict his nostrums upon you, for "*There is nothing like leather,*" has passed into an English proverb.

Will the most honest among you—one who values the truth more than he fears the frowns of the Whipper-in—venture to remind your Committee of the fact, that no rational distinction can be drawn between the motives which influenced the money-dealer to give so decided an opinion in favour of the present system, and those which led the equally cunning leather seller to tell the authorities "*That leather was the best material for the walls of a besieged city.*"

Above twenty years have elapsed since Mr. Poulett

Thomson pronounced this character of the BANK MONOPOLY, yet it still exists in all its enormity, and the industry of the country is yet reeling under the staggering blow it has lately inflicted on the public. As I also believe that, like all MONOPOLIES, "that of the Bank of England is a nuisance which ought to be abolished," it therefore appears most useful to enquire carefully—What can have so long preserved the nuisance? Why cumberers it the ground? the last and worst of the MONOPOLIES.

One of the reasons for its existence consists in the undoubted fact, that it affords great convenience to a Government whose guiding star is red-tapism, in being able, with little trouble, to borrow money for Public Expenses, Payment of Dividends, &c.; but as the measure which I shall submit to your consideration would most effectually prevent the necessity of the Government being at any time a borrower for Ordinary Expenses (not a very creditable position for any Government), it is not necessary to say a word on this point.

Another, and a far more important reason for continuing the existence of the BANK MONOPOLY, consists in the law which renders it necessary that every note should be convertible into gold; for, as it is certain that this may at times be impossible, it might happen that if the Government issued the notes, and had no gold to pay them, it would become Bankrupt—far more discreditable than if the Bank of England, which is only a Joint Stock Company, should be so involved.

Were I only fortified by my own conviction that the money-dealers' scheme of Convertibility must, however profitable to themselves, be necessarily productive of the greatest public injury, I should have hesitated in expressing this conviction so strongly, when on reading the late debates upon the subject, I perceive how many talented and influ-

ential Members declared themselves just as positively in favour of Convertibility.

Yet I am sustained by the Legislative history of, comparatively speaking, a very few years; for I there find recorded the melancholy but indisputable fact that there never existed a single abuse, which was not merely defended, but extolled as one of the best Institutions of the country by overwhelming majorities of both Houses of Parliament, and by the leading statesmen of the period, the latest of which was the memorable assertion of Lord Melbourne—"That a man must be insane who would seriously propose to abolish the Corn Laws."

The Slave Trade—Catholic Disabilities—the Test and Corporation Acts—Rotten Boroughs—the Trade Monopoly of the East India Company—the Landlords' Monopoly and the Corn Laws, have all had committees, selected by the Whipper-in of the day, extolling them as the valued Institutions of the country; yet they are all gone to the land of the Capulets, because however beneficial to the *few*, they were injurious to the *many*; and so will it be, sooner or later, with the *Monopoly of the Bank of England*, and with the myth Convertibility. They have all miserably perished, hooted down by the shouts of the people, because they were based upon falsehood,—falsehoods now so clear and palpable, that the wonder is how any man whose friends permitted him to be at large, could have either condescended to use them, or been abject enough to support them.

*It was false* that a man could justly have property in a fellow-creature. *It was false* that the admission of Roman Catholics to their social rights could subvert our constitution. *It was false* that our Constitution would perish if Rotten Boroughs were destroyed. *It was false* that the Trade Monopoly of the East India Company was a benefit

to the public. *It was false* that the Landlords' Corn Monopoly was a benefit to the public. Yet all these falsehoods have been maintained by committees of both Houses, by large majorities in both Houses, by eminent statesmen; and I parade this fact before you, because I wish you to consider whether it may not be *equally false* that convertibility of paper into gold is essentially necessary to the credit of this country.

The assumed necessity for convertibility into gold arises from the error of treating the measure of value and the currency as similar, whereas they are essentially different—different in their origin, and different in their use; and gold is no more the standard or measure of value, than the block out of which the yard is made is the measure of length;—in the one case it is gold at the rate of £3 17s. 10½d. per ounce, which is the measure of value, in the other it is the yard formed from the block which is the measure of length.

This distinction of gold itself not being the measure of value may appear at first hypercritical; but really not drawing it is the basis of the confusion between the measure of value and the currency, for these bear no other relation to each other than that which exists between the yard of silk or cotton, and the instrument which measures it; and as the measure of length may be of any material, so different measures of value have been adopted by different countries; and very able men, masters of the subject, have expressed an opinion that either corn or labour would be a more correct measure of value than either gold or silver.

The measure of value which a country selects, is adopted for the purpose of enabling the inhabitants to fix a price on the articles they produce or sell, corresponding with that which it has cost them, with the addition of their expected profit. The tailor has a coat to sell, the shoe-

maker a pair of shoes—but if there was no measure of value, however well inclined they might be to exchange, how would it be possible to effect an arrangement?

But with a measure of value, whether gold, silver, or copper, or even corn or labour, the transaction would be easy. With our measure of value—gold, at £3 17s. 10½d. per ounce—the tailor puts the price of one ounce of gold on the coat, while the shoemaker requires one quarter of an ounce as the price of his shoes. The exchange is effected, the shoemaker owing the tailor three-quarters of an ounce of gold. This is *BARTER*.

The obvious difficulty of transacting any large amount of business in this mode, led to the necessity of having a currency, first of the more common metals, then, as business increased, of the more costly. Why? Not merely because gold was a more valuable metal than iron or copper, but because gold, on account of its relative value being far greater than its relative weight, was more portable, and therefore more convenient. This necessity of the feature of portability in a currency, led to the adoption of a paper currency, in the form of bills of exchange and of cheques.

Without these it would be absolutely impossible to carry on business at the present day; for all the coin in the world would be a very insufficient currency to carry on the business of this country alone. Among the mercantile community the bills of exchange are currency, just the same as the one pound note is among other classes. It promises to pay at a future day one thousand pounds. Does either he who gives, or he who receives it, do so because they expect on the day appointed, one to pay, the other to receive, one thousand pounds.

Can this be pretended? And, if so, were there not bills of exchange between 1797 and 1819. But it is notorious, both the man who is to receive a thousand

pounds, and he who is to get a sovereign, take note for both the sums, in the certainty they will have no difficulty of parting with them for the precise value they purport to bear, that value being a distinct relative proportion to the measure of value, viz., gold at £3 17s. 10½d. per oz. It is this feature of the will of the public which alone decides the question, whether the Currency is of a satisfactory character or not.

Bigoted partisans of James refused the coin stamped with the effigy of William and Mary, and when necessity compelled them to receive it, they sent it to the melting-pot, at a certain loss, rather than be the medium of passing to others the emblem of sovereignty.

It is self-evident that the quantity of currency required in each country must be entirely dependent on the amount of the agricultural, commercial, and manufacturing operations of its inhabitants. This amount necessarily varies not only from one year to another, but even from one season to another, and therefore it is of the highest possible importance to a country like ours, which may be truly denominated a Hive of Industry, that the currency should be of an elastic character, expanding without difficulty or expense, contracting without loss.

The wit of man could not possibly have devised a better system for Currency than Paper issued by Country Bankers, fully cognisant of the currency wants of each district in every season, and ready to supply such wants the moment they occurred, on such security as practical experience assured them was sufficient to protect themselves, with a fair profit. On the face of it, this would appear reasonable; and no one, whose mind is not so constituted as to be disposed to question whether 2 and 2 make 4, can deny that in Scotland, where the principle has been tried for a greater length of time, and to a greater amount, than in any other country, it has been productive of the greatest

benefit to every one, more especially to the industrious classes, whether employers or employed.

I do not doubt that such Banks require some special laws, and that they should not be left entirely to the principle of free trade; and I as little doubt that the more simple such laws are the better, and that it would be infinitely better for the public, if driven to the alternative, to have a perfectly free trade among Issuers of Paper Money, than the existing system, which has been concocted by the advice of Money-dealers,—advice given on the identical principal which actuated *Esop's leather seller*.

These acute millionaires saw, what, indeed, should have been apparent to our legislators, that when the currency of each district was supplied by the banker, who best knew the local wants, it would not be possible to operate so largely, so certainly, and therefore so advantageously to themselves, as if they could make London the centre from which all the currency should flow, directly or indirectly. And although they have not yet succeeded to the extent they desire, they have accomplished far too much for the prosperity, or, indeed, for the honour, of this country.

Three times, within a very limited period, the laws passed by the advice of money-dealers, for the legislation of the currency have brought the Bank of England to the verge of bankruptcy, from which it only escaped by breaking the law. And it does occur most forcibly to my mind that it is the bounden duty of every man to contribute all that lies in his power to prevent the repetition of so demoralising a practice,—admitted, forsooth, by the admirers of the present system to be indispensable. Breaking a law admitted to be indispensable! What must be the real character of the law?

The Currency Question has always appeared to me to be one of the most simple character, although parties deeply interested in the maintenance of the existing absurdity,

have so successfully contrived to mystify the subject, that it is one hardly ever discussed in society; yet nothing can be more clear than the fact that it is one of the highest social importance to all classes of the people.

Whenever an important subject is much confused, the only sensible mode of arriving at a sound conclusion is to return to first principles, and this it will be my duty to perform with as much conciseness as the subject will permit, and so that every one who runs may not only read, but fully understand that which is of the utmost importance to himself personally—to his fellow-subjects collectively.

The question which it is so important to be properly understood and fairly answered is this—*Is it possible to establish a Currency suited to our domestic wants, which shall not subject the rate of discount to that excessive fluctuation under which our industry occasionally staggers?* And to solve this question in a satisfactory manner, all should be agreed on two preliminary points.

1st, *What are the essential elements of a good Currency?*

2nd, *What is the cause of that excessive fluctuation in the rate of discount, under which we at present suffer, and which may be truly called the curse of industry?*

These two questions must be answered, not only with precision, but with the assent of every intelligent mind—in order that every proposal for a change in our present system of Currency may be brought to an acknowledged test, when comparing it with that which at present exists—and most fortunately there can be no difference of opinion as to the answers to be given to these two questions. They are—To the 1st: *The essential elements of a sound Currency are, that it should be always sufficient in quantity, and its value not liable to fluctuation.*

To the 2nd: *That an increased rate of discount is occa-*

*sioned, under the present system, by an increased demand for gold in foreign countries.*

This plain statement would surely lead every unprejudiced mind to the inevitable conclusion that an article so liable to fluctuation, both in quantity and value, as gold, cannot possibly be a proper article for Currency; one of the essential elements of which is, *that it should always be sufficient in quantity*, and not liable to fluctuation in value, and so palpably true was this conclusion, that our Currency quacks found it necessary to meet it, and fancied they had obviated the objection by passing a law that the Bank of England should always sell over their counter whatever gold was asked for, and always purchase whatever quantity was offered for sale, and this at a certain fixed price, whether its value abroad was high or low.

But it is evident that absurd as this law was, it could not apply to *quantity*, but only to *value*, and how any one could have been sufficiently brazen-faced as seriously to propose that which cannot be read without derisive laughter, can only be explained by the fact that the proposal was made to the same body which had repeatedly declared that Gattou and Old Sarum were the bulwarks of our constitution, and that the best means of securing to the industrial population of this country a sufficient quantity of corn at a moderate price, was to prevent its importation from abroad.

But even the Corn Law had its sliding scale, for our legislators appear to have had shrewd suspicion that famine prices might cause something yet more disastrous than cheap corn, and therefore the sliding scale was invented; but gold has none, however high, however low the value of gold may be in Europe, Asia, Africa, or America, the Bank of England must purchase or sell it on demand, at a fixed price—and this our legislators were pleased to call Regulation of the Currency!!!

Shade of Cervantes where art thou!

The consequence of such a law was inevitable—when gold was cheap abroad, the Bank coffers overflowed—when it was dear abroad they were exhausted; such a trade could only terminate in Bankruptcy, and Bankruptcy in an establishment, almost national, is not a pleasant operation—*yet Bankruptcy must happen, unless some expedient could be adopted to divert the loss from the Bank, and throw it on the people—and this was accordingly done.*

Of course, in an underhand manner, for no one would have ventured to make so bare-faced a proposal as to tax the industry of this country to prevent a Joint Stock Company (for such is the Bank of England) suffering the penalty of Bankruptcy, necessarily attendant on such an absurd mode of transacting business as to engage to buy, and to sell, any article at a fixed price, without any reference to its value in foreign countries.

The wicked dodge of throwing on the industry of this country the burthen of bearing the folly of the Bank, works in this way;—when the Directors perceive that the gold is leaving their coffers, they immediately raise the price of discount—this sounds the alarm, other bankers do the same, for no one will discount at five per cent. if he can obtain six. The Continental demand for gold increases, the Directors again and again raise the price of discount, their example is again followed, and yet gold still leaves the country—and again the Directors raise the price of discount, and take another step, that of rejecting the very bills which they would have cheerfully discounted a few months before.

The alarm spreads, other bankers, necessarily the most careful of traders, and the most honorable as well as most useful class in society, pursue the same course—limit the accommodation to their customers, in the shape of discounts and advances, and prepare to meet the coming storm by realising a considerable amount of their assets, which

they lock up in the shape of gold and Bank of England notes: This limitation of discounts, and advances, and of currency, causes great pressure on the Mercantile classes whose business is carried on by bills of exchange—great sacrifices are made, sometimes successfully, often not—frequent bankruptcies occur—the alarm becomes more general, all prudent persons contract their engagements until the storm is passed, therefore the industrious classes dependent for their daily bread on daily employment, are without work, and the alternative of the pawnbroker, the workhouse, or starvation, is all they have to look for.

But still the gold leaves the country, discounts rise to ten per cent., hoarding for the dreaded day increases among all classes—panic ensues—bankruptcies increase, clutching the most solvent as well as the most speculative—Bank Directors get frightened—the Government alarmed—at last, to prevent the bankruptcy of the Bank of England, the Directors break the law, with the concurrence of Government, and confidence begins to dawn.

Now, the law which they have so broken is that which compels them not to issue notes beyond a certain amount without a corresponding quantity of gold in their coffers, and they have just broken the law by creating Two Millions of Bank-notes more than they ought, thus making above 15 millions of Bank Notes in the hands of the public, without an ounce of gold to meet the Two Millions not already pledged to redeem other notes. Although the public knew this, confidence immediately began, for the Directors then had the power of creating any quantity of notes they pleased, and therefore the means of discounting bills—paying ten per cent. for more accommodation being infinitely better than the alternative of bankruptcy; and mark the fact that it was not gold, but an additional number of Bank-notes, which restored confidence, and the greater part was soon in the hands of the public.

Does not this clear statement prove, as clear as the sun at noon-day, that the Bank of England has really thrown on the shoulders of the industrious classes, in the shape of increased discount, the loss which it ought to have suffered, because it was a party to so absurd a law, in order to obtain and uphold its baneful *Monopoly*. Had it not been for increasing the discount, gold would have left its coffers more rapidly, and its bankruptcy sooner inevitable; and, indeed, this would have become so frequent that even an idiot would have fancied something must be wrong in the law.

Now, if this operation of increasing the rate of discount could be limited to those who desired to export gold, no one would complain; but this is impossible, and therefore every employer of native industry, whether in our industrial hives of Manchester or Birmingham, or the agricultural population of Caithness or Cornwall, must pay the increased rate of discount for the money essential to carry on his business, with the still more deplorable certainty of having his usual accommodation limited.

How long the industry of this country will suffer this extortion to be practised, for the mere purpose of bolstering up the *Monopoly of the Bank of England*, must depend upon themselves and upon the Press. These were sufficiently powerful to abolish the monopoly of the Corn Laws, and that of the Bank of England would soon yield to a vigorous assault. The famine in Ireland gave the death-blow to the former: 10 per cent. may arouse those who would have borne with the infliction of 6,—not without grumbling, but with grumbling alone. And it is not a new feature in the practice of monopolists, that while the public are robbed for the purpose of saving them from bankruptcy, they contrive to make the transaction profitable to themselves, and chuckle over the 10 per cent. extorted from the industry of the country to enhance their dividend.

This raising the rate of discount saved the bank in 1837;

but it failed to do so in 1825, in 1847, and in 1857. While on this subject, it may be as well to notice another legislative absurdity on this subject, proving that with institutions as with individuals, any departure from truthfulness must be supported by others most monstrous. The law says that every bank-note issued by the Bank of England, shall be convertible into gold on demand; and the law also says that the Bank may issue Fourteen Millions of Bank-notes without an ounce of gold in its coffers. Besides this, the Bank being a Joint Stock Company, is permitted to take deposits—that is money which they may be immediately called upon to pay either in notes or in gold, if in the former, it must immediately change them into gold on demand.

That this is the law no one can deny; now, let me produce the Bank account, published the week after the Directors had broken the law.

<i>Gold. Dr.</i>	<i>Gold. Cr.</i>
Notes Issued, 29,564,595	Gold Coin and Bullion, . 6,079,595
Less on hand, 1,148,185	Gold and Silver Coin, . 404,501
<hr/> 21,416,410	<hr/> 6,484,096
Public Deposits, . . . 5,483,881	Deficiency, . . . . 35,204,904
Other Deposits, . . . 13,959,165	
Seven day and other Bills, 829,544	
<hr/> 41,689,000	<hr/> 41,689,000

But even this account does not tell the truth, the whole truth, and nothing but the truth, for it does not in the first item on the credit side distinguish the amount of how much gold coin, and how much bullion, so it may be true that when the account was issued the Bank had not coin to the extent of Half a Million, to meet its liabilities to pay in gold £41,639,000. And this is Lord Overstone's Regulation of the Currency.

Of course, the Bank of England has plenty of assets to meet every possible liability, provided it had time to realize them; but this is practically impossible, for hoard-

ing is the certain accompaniment of panic, and where there is hoarding there can be no purchasers of assets, however good. In the above account the Bank had a valuable asset in the Government debt of Fourteen Millions, but the Government had no money wherewith to pay it. It may be said, and said truly, that all other Banks are similarly situated, and that it would not be possible for any to pay those demands for which immediate payment may be demanded, but which never is called for except in times of panic.

It is for this very reason I am so anxious to avoid that Convertibility which is the inevitable parent of Panic whenever there is a great demand for gold abroad—it is therefore I am so anxious to prevent the possibility of any department, directly or indirectly, connected with Government, becoming bankrupt or violating the law in order to prevent bankruptcy.

The present system works in this manner. The money-dealer having to pay a bill for £10,000, due in London, finds gold cheaper in Hamburg than in London: he therefore purchases at that place, say for £9,500, so many ounces of gold as would at £3 17s. 10½d. amount to £10,000, imports it to London, walks into the Bank of England, there *deposits it*,—mark, *deposit* is the word. But for what does he ask?—anything like a pawnbroker's duplicate! No such thing. He asks for £10,000, and £10,000 is given to him in Bank-notes, with which he retires his bill, and blesses his ingenious leader in money dealing, for having invented so easy a process, by which he has pocketed £500, minus expense of carriage.

Similar operations are continued until the Bank coffers overflow, and therefore there cannot be so much gold in Hamburg; consequently it becomes dearer there than in London, when the money-dealer again walks into the Bank

of England, not as a seller, but as a buyer. He purchases from the Bank any quantity he can find means of paying for—and money-dealers are millionaires—at the rate of £3 17s. 10½d. per ounce, and sells it at Hamburg at a profit.

Superficial persons exclaim, well, the money-dealer has got back his £10,000 at £3 17s. 10½d. per ounce, and although he has made a profit both in buying and in selling, yet neither the bank nor the public has been injured: for the former has sold the gold it received at the same price it paid—£3 17s. 10½d. per ounce; and as to the public, there is the same quantity of gold in the country as when the first operation commenced.

Now this would be quite true, were it not for "*Convertibility*," which obliges the Bank to continue the operation of selling, in other words, of giving gold in exchange for its notes, so long as it is profitable for parties to buy, or until its gold is exhausted, and Panic ensues; indeed, nothing would be more easy than for a combination of these money-dealing millionaires on many occasions to combine and purchase the last two or three millions.

They could not possibly lose one shilling except for interest. £3 17s. 10½d. they would pay for each ounce—and £3 17s. 10½d. they would receive when their game had been played; and their enormous profit may be best judged by the fact that, their *principal organ*, *The Times*, in a leading article, blamed the Government for having interfered, by its letter to the Bank Directors, with what it unblushingly called the legitimate profit of the money-dealers, whom it y'clept, "*The hard headed Calculators*," and which profit it declared would have been from 20 to 30 per cent. had it not been for that letter.

No one can entertain a rational doubt that just in proportion as any article chosen as Currency, whether gold, silver, copper, paper, or the cowrie, becomes an article of commerce—that is sought for by other countries—it ne-

cessarily ceases to be a good article for the Currency of a country;—and for this self-evident reason, that all articles of commerce must be subject, be it more or be it less, to fluctuation both in quantity and in value, arising from the natural causes of supply and demand.

To this the supporters of our present system of Currency reply—The principle you have laid down is quite correct, no one can truthfully impugn it; and it is on this principle we hold gold to be a proper article for Currency; because although it is an article of commerce, and therefore liable to fluctuation, both in quantity and in value, yet it is much less liable to such fluctuation than any other article which can be named.

Now, *this is the point on which I take issue*, and it is the very gist of the whole question; for every disinterested person, not bigoted to any particular theory will unhesitatingly admit, that the article which is least liable to fluctuation, both in quantity and in value, is that which ought to be selected as the proper article for Currency—assuming, of course, that it is sufficiently convenient in portability.

My proposition is, *That a Paper Currency, issued by Government, inconvertible into gold, but limited in amount, and not subject to the control of any Bank in any shape, must necessarily be less liable to fluctuation, both in quantity and in value, than gold*, because Paper Currency can never become an article of commerce;—nay, beyond this, I aver that any fluctuation in such a Paper Currency would, under proper regulations, be morally impossible. I say under proper regulations, for although such regulations would be very simple, and the more so the better; yet care must be taken that they are not formed by any one interested in upholding the present system, which may be truly described as one concocted by interested parties to render the Currency as liable to fluctuation in quantity as the public will bear—for

be it ever borne in mind that such fluctuation is always an enormous source of profit to that class of money-dealers of whom Lord Overstone may be considered the leader.

Of course, on the bare mention of a Paper Currency, inconvertible into gold, this class of money-dealers will urge their principal organ, *The Times*, to shout—Assignats—Worthless rags—Brummagem school,—and all that low slang which constitutes so material an element in its dogmatic assertions on every subject. To expect such parties to be convinced by reason is as hopeless as it was to convince Landlords of the injustice of the Corn monopoly. But our industrial population, whether employers or employed, are beginning to see clearly the folly of paying 10 per cent. for discount, as the minimum rate, merely to pay the losses which would be incurred by the Bank in bolstering up its *monopoly*, and saving that credit which is so often endangered by the demand for gold in Foreign countries.

But there are others whose objections to a Paper Currency, not convertible into gold, deserve to be treated with respect; for without any interested views they see the evils inevitably attendant on the present system, and would hail with pleasure any effectual remedy; but they fear that a Paper Currency not convertible into gold would produce similar if not greater evil. One of the most respectable of the London press, the *Daily News*, in an article last week, thus states the proposition—"That the securing of the convertibility of the Bank-note is a cardinal principle."

Why? Surely for only one reason, namely, to prevent its depreciation. Can any other be possibly suggested, and if not, does it not follow as a matter of course that Convertibility is not the *End*, but only a *Means* to prevent depreciation of the note.

Can there be any rational doubt of this? and if this be

so, does it not follow not only by the rules of logic, but by common sense, that other *Means* than those of convertibility into gold may possibly also produce the same *End*, namely, security against depreciation.

Can even *The Times* have the audacity to deny that "Convertibility" is merely a *Means* to an *End*—the *End* being to prevent the depreciation of the note, and if *The Times* will not do this, will Lord Overstone? Let him be asked the question by your Committee. And yet upon the fact that Convertibility is only a *Means* to an *End*, depends the whole question as to the necessity of keeping up this *myth*—not less false than the rites of Paganism, and entailing ruin upon the wealthy—want of employment and consequent starvation upon the industrious class.

Those who have studied the subject are perfectly aware that there is a principle which would prevent the inconvertible note from being depreciated, and this principle is "*Limitation of the Issue*"—the most ardent of bullionists freely admitting that if the supply of notes can be limited, depreciation is impossible; but in the same breath they assert that limitation is impossible, for extension of the issue presents so easy a mode of raising money, that it will be resorted to in the case of necessity by all Governments.

But the same assertion may be made of clipping the coin, and no doubt despotic Governments would resort, and have resorted, to clipping the coin, and extending the paper issue, in order to escape from temporary embarrassment. I would no more intrust the limitation of a Paper Currency to a Legislature elected by Universal Suffrage, as in America, than I would to a Venetian Senate, to the Emperor of Russia, or to the King of Timbuctoo.

But in Great Britain—one branch of the Legislature composed almost exclusively of Landlords, the other of the most wealthy Commoners of all classes in society—to suppose that both, or either of these assemblies would

depreciate a Paper Currency by increasing the amount issued, in which depreciated paper their rents and debts would be paid, would require an amount of credulity which does not belong to these times.

Then, however, arises a most important question, but fortunately one which has a most easy solution. It is this—What shall be the amount of the limit? and also another—Who shall issue the notes? for although "*Limitation*" is a principle which, when applied to a Paper Currency not convertible into gold, must infallibly produce the desired *End*—namely, impossibility of the depreciation of the note—yet it is self-evident that such limitation must, to attain that *End*, be governed in its amount, by the means of those who issue the notes; and not only is this necessary, but it is also essential such means should not be liable to any disturbing influences, but be as permanent as human affairs will permit. This permanence must, of course, depend upon the character, the position, and the habits of those entrusted with the issue.

None but a Government issue can possibly satisfy to the fullest extent this permanence. A Joint Stock Company like the Bank of England may be improvident—contract bad debts—speculate injudiciously—lend money on bad security, or dissipate its resources as other banks have done; and it should never be forgotten that regulation of the Currency is a primary duty of all Governments, whether civilized or savage. Surely that Government commits a gross dereliction of duty when it delegates the regulation of a considerable portion of our Currency to a Joint Stock Company like the Bank of England.

All tampering with the Currency of a country must be highly prejudicial to the industrious classes, both employers and employed; and the result is precisely the same, whether such operation of tampering is on the amount of the Currency, or on its value; yet, strange to say, the Jew

who tampers with the value, by clipping the coin, is treated as a felon, while the Directors of the Bank of England daily tamper with the amount of the Paper Currency.

No blame can attach to the Directors, for the duty has been imposed upon them by vicious legislation, concocted and contrived by interested parties. Woful experience has proved beyond all reasonable doubt the inevitable result of such legislation. Houses, perfectly solvent, obliged to suspend payment—others ruined, because they could not obtain discounts, which a few months before had been almost forced upon them—the industrious classes unable to obtain employment—all classes suffering—and the Bank itself only escaping bankruptcy by the discreditable operation of suspending the law of the country.

That the existing system of Currency has several times produced those great social evils, none but those confirmed red-tapists, who dwell in Circumlocution-office, and those who make a large profit by the distress, can seriously deny,—but it may not have occurred to you that the principle of convertibility into gold *necessarily* carries with it these lamentable results—yet I hope to make it as apparent as the sun at noon-day, if not to you, to the public, that such is the fact.

Strange, indeed, is it that Lord Overstone and the Bullionists can so plainly discern the mote of an enterprising merchant trading beyond his means,—those very Bullionists, be it observed, having crippled his means,—and yet not discern the beam of the Bank of England, liable to be called upon to pay in gold above *Forty Millions*, with gold in its coffers not amounting to *Six Millions and a-Half*.

It would be very difficult to believe that a majority of your body are so crassly stupid, or so bigoted to preconceived notions, as to require any argument to prove that any Company, or indeed any Government, with such

a balance sheet as that just given must always be liable to great danger from a continental demand for gold,—must often be at the mercy of money-dealers,—must often be on the eve of Bankruptcy.

But the argumentative persuasions of the Whipper-in are notorious. I will, however, leave you without the shadow of an excuse, either for ignorance or prejudice, by referring you to facts, which, unless you are prepared to deny the axiom, that the same cause will produce the same effect, ought to be decisive. In 1793 there was a panic, and scores of banks suspended payment; in 1825, there was a panic; in 1837, another; in 1847, another; a fifth, in 1857—in 3 of these panics, those of 1825, 1847, and 1857—the bank only averted bankruptcy by breaking the law. During these years of panic, convertibility into gold was the law of the land; from 1795 to 1819 inconvertibility into gold was the law of the land, and there was not one single panic. Not one single monetary panic—no, not when the invasion of the country was so looked for that one million of volunteers rose in arms to repel it.

But it is confidently said, that if "Convertibility" was not the law, there would still be occasional distress among our merchants, manufacturers, and industrious classes; and this may be most freely admitted, with the observation that it has nothing to do with the question—for the charge is not that "Convertibility" occasions distress, but that it invariably increases it, and sometimes to the extent of Panic. Panic is the child of "Convertibility." Panic is one thing—distress another. Panic arises from a general fear among all classes: distress, however extensive among the traders in one or several commodities, hardly affects any but their immediate connexions; indeed, almost universal distress, unless it produces extensive rioting, will not produce Panic.

Over-trading in any commodity, or to any country, must

produce distress and probably ruin to all connected with those in that particular business; but the agriculturist in Yorkshire and the miner in Cornwall could in no ways be affected by such bad speculations. A Panic, caused by "Convertibility," having exhausted the gold in the Bank, may be the ruin of both.

Distress arises from that which has happened; Panics arise not merely from that which has happened, but that which people are afraid of happening—not from the amount of gold actually taken from the Bank coffers, but from the fear that it may all go—for what dishonour is to a soldier, so is bankruptcy to a merchant or to a banker; it must be averted, cost what it may, present or future; and thus we find that during the late Panic the greatest hoarders were not the ignorant, but the well-informed London bankers and merchants. Then comes the harvest of the money-dealers.

Money-dealers who have so strong a personal interest in upholding the present system, and by whom, indeed, it was contrived, will no doubt shout Repudiation—the Law pronounced that the Bank should pay all the notes it issued in gold, and yet you now propose that the notes should be paid in paper. To which hypocrisy the common sense answer is—True that the law did say so, that the Bank should pay all the notes it issued in gold; but the same law also said that the Bank might issue Fourteen Millions of Bank-notes without having an ounce of gold in its coffers to pay them.

The attempt to reconcile such opposite principles has brought the Bank of England to the verge of bankruptcy on several occasions, and inflicted on the industrious classes distress, ruin, starvation. Instead of Bank-notes, which have produced such lamentable results, we will give you in exchange Government notes, which will be made a legal tender, received for taxes, and issued with precisely the

same relation to the measure of value as the present note, namely, gold at £3 17s. 10½d. per ounce.

This answer would be sufficient for any rational creature who had not his own purposes to serve, especially when it is remembered that on every occasion when the Bank was on the verge of bankruptcy, confidence was restored—how? by paying its notes in gold: no, but by issuing more notes, although the public well knew that it could not pay gold for two-thirds of those already in existence. Surely this proves that the public care not a rush for Convertibility, even in the worst of times, and when every thing is prosperous it is confessedly of no importance.

But, unfortunately, the class of old women, with a masculine dress, is very numerous, and I would therefore respect their prejudices, and leave the money-dealers alone in their glory. With this view, the new Government notes should be a legal tender, except in exchange for Bank of England notes, which should be payable either in gold or notes at the option of the holder, time being of course given to the Government to effect the operation.

The measure which I so confidently submit for your consideration, would prevent the possibility of panic among the Commercial class, arising from the difficulty of obtaining gold; and I firmly believe, from every *Monetary Cause*. It would also produce a very great *Financial Benefit*, enabling the Government to redeem their promise of giving up the Property Tax at the appointed time.

Important as these considerations undoubtedly are, I esteem them of very little moment compared to the permanent relief the industry of the country would receive by not having its daily operations interfered with, for the silly purpose of attempting to keep gold in the country when it bears a higher price on the Continent—a Sisyphean labour only accomplished by the distress and ruin of honest men, amidst the curses of all, except the money-dealers.

If the measure I propose should be adopted, it would be necessary—

1st. That the Monopoly of the Bank of England should be abolished, that it should cease the issue of notes, and have no connection, either directly or indirectly, with the Government.

2nd. That the Government should issue notes, not convertible into gold, limited to the extent of the Revenue—such notes to be a legal tender, and of course receivable for the Revenue.

#### WORKING OF THE MEASURE.

The first operation would be to pay off the nominal amount due to the Bank—say Eleven Millions,—and I call the amount nominal, because in truth the Bank is indebted to the public, as represented by the Government, a far larger sum, on account of the notes which it has issued and for which it has received value; for of course the Government would relieve the Bank from the payment of these notes, and exchange them for Government notes as quickly as possible.

Taking, for the sake of uniformity, the weekly account of the Bank of England already quoted, and although the sums are different, the general result would be similar, the Bank would have to pay the Government a balance of £10,391,310. The account being as follows:—

<i>Bank of England. Dr.</i>		<i>Bank of England. Cr.</i>	
Notes issued by the Bank		Government debt, . .	11,015,100*
less in hand, . . .	21,406,410	Balance due from Bank,	10,391,310
			<hr/>
			21,406,410

\* This is the real debt, the nominal one is £14,475,000; but for £3,459,900 the Bank holds securities worth more than the money.

This balance the Bank would not have the slightest difficulty in paying, as the bullion and coin now in its possession would be sufficient.

#### FINANCIAL POSITION OF THE GOVERNMENT.

Assuming that the Government issue was limited to the amount of the Revenue, not reckoning the Income-Tax, (which may be considered only temporary, provided the proposal be adopted,) or say in round numbers to Fifty Millions, about Twenty Millions and a-Half are now in the possession of the public, which would leave in the Government chest about Twenty-nine and a-Half Millions of Notes. This, with the balance paid by the Bank, £10,391,316, would put the Government in possession of a sum nearly approaching Forty Millions—not an uncomfortable balance with which to commence the era of common sense.

#### APPLICATION OF GOVERNMENT BALANCE.

Of this sum, everything above Twenty Millions should be kept by the Government, and applied solely to the payment of dividends and expenses of Government, and which must be periodically replaced by the current revenue. This would prevent the possibility of Government ever having occasion to borrow a shilling for such purposes, and would be the best of all Peace Preservers. Who would like to commence war with a country having a disposable sum in its hands of above Fifteen Millions!!

The Twenty Millions should be issued in One Pound notes, according to the suggestion of the Secretary of the Treasury—one of the best financiers of the present day,—and should be applied in paying off all the Exchequer Bonds created by Mr. Gladstone, and the balance applied to pay off Exchequer Bills, thus relieving the country from Annual Taxation.

It is only fair to Mr. Wilson, the Secretary of the Treasury, to say that his proposal was to issue One Pound Notes to the amount of 20 millions, but which were to be convertible; but I submit that my proposal is infinitely better, for his would only have increased the intensity of the Panic, if any cry arose of *Go for gold*. Under his plan, however, as well as mine, if the public did not require this extra circulation, a quantity of sovereigns would probably be withdrawn from circulation, melted, and sent abroad.

For there is no proposition more true, than that it is absolutely impossible to have in any country a greater amount of circulation than its inhabitants require; and this proposition is equally true, whether the Currency be of gold or paper—in the latter case it is always returned to the issuer—in the former, it goes to the melting-pot, either for home or foreign consumption.

One of the old school will immediately exclaim, Monstrous—why this 20 millions of sovereigns might be sent abroad to enrich foreigners at our expense; but experience has taught us that the foreigner would not only have to give the value of each sovereign before he received it, but if such exchange made him richer, we should rejoice since rich customers—and all foreigners are our customers—are better than poor ones.

#### EFFECT ON THE INDUSTRY OF THE COUNTRY.

Every one would conduct his own business without the slightest fear that he should suffer from the fault or improvidence of those with whom he had no connexion. No one who loves the truth, and desires that it should prevail, will say that this is the case at present; and the baneful effects press with peculiar hardship on two large classes of the community—the agricultural class, who never can be accused of rash speculation, and the operative, depending on his daily labour for his daily bread.

The interest of both these classes is considered by money dealers of very trifling importance.

Under the present system, these classes are deeply injured if either the manufacturing or commercial classes enter into wild speculation, either with or without resources: for a collapse must sooner or later take place; and I confidently believe that, like all wise measures those now proposed, will confer benefits on the community hardly contemplated when first proposed.

For it cannot be doubted that one of the causes which lead to excessive credit, without which wild and extensive speculation could not exist, is not merely the hope but the certainty, as experience has proved, that if the rate of discount can be driven down to 2 or 3 per cent., it must certainly rise to 8, 10, 12, and higher, per cent. Thus in 1852 the Bank minimum rate of discount was 2 per cent., in 1857 10 per cent.; and for the maximum rate, inquire of the money-dealer.

If, however, the proposed measure were to become law, and the *Monopoly of the Bank of England abolished*, there would be no gigantic establishment with above 20 millions of gold in its coffers, anxious to employ it on any terms, and forcing it on the country by the temptation of lending it at 2 per cent. Interest, therefore, and the rate of discount, would be regulated solely by the law of supply and demand; and the wealth of the country being very great, it could never attain an exorbitant rate.

Neither could it be very low; for as the hope, if not certainty, of an extravagant rise would be cut off by the proposed measure, when there was a superabundance of money in the market, rather than lend it at 2 per cent., it would be invested either in Government stock, or railway shares, or land and houses, or lent on mortgages or railway debentures. Absurd speculation would therefore not be fostered, as it is under the present system: where it

existed it would be the exception and not the rule—entailing ruin on the parties alone, but having little effect on the general welfare.

No class would be more greatly benefited than railway proprietors, for not only would there be a greater amount of capital invested, raising the price of shares, but the debenture interest would rule considerably lower, and be more steady, than under the present system—an all-important consideration. Interest on mortgages also would certainly rule lower, in consequence of there being a greater amount of money invested in them.

#### EFFECT ON MONEY-DEALERS.

They must be content with a fair profit on their capital, derived from the prosperity of those around them, in place of those exorbitant gains of an usurious character coming from the misery of those who are so unfortunate as to be in their power, and entailing on millions of unemployed workmen starvation. Poll them to-morrow, and all to a man would choose the present system. Poll the Bankers, and the proposed measure or a similar one would be hailed with enthusiasm.

Although open to the charge of tautology, I will now lay down, under separate heads, Propositions which I myself believe are Truisms, and which should therefore lead to the immediate abolition of the present system.

I have the honor to remain,

GENTLEMEN,

Your truly faithful and obedient servant,

ANTI-MONOPOLY.

December 23, 1857.

P.S.—If you are sincerely desirous to perform your duty, irrespective of preconceived opinions, you will not

hesitate to inquire of the Manager of every Bank of Issue in the United Kingdom, *Whether the Banking operations of his district would not be less liable to disturbing influences, if the notes he issued were payable in such Government notes as are proposed, or gold at his option, than under the present system.*

You will not fail to recognise in these gentlemen, your equals in education, and far your superiors in knowledge of that which would be most conducive to the public welfare on this all important subject. Will you, on that account, refrain from asking their opinion? which you may do by circular with little trouble or expense. Even a money-lender would not venture to assert that such opinion could be subject to any interested motive, as it is self-evident that no local Banker, whether he issued his notes or not, could obtain a Government note for One Pound, a fraction less than he would pay for a Sovereign.

## APPENDIX.

### TRUISMS

#### *On the Bank Monopoly.*

1st. That the enormous fluctuation in the rate of discount—the extremes being from 2 *per cent.* in 1852, to 10 *per cent.* in 1857, or 400 *per cent.*! is a curse upon the industry of the country, and has the baneful effect of introducing into mercantile operations that spirit of gambling which is the leading business of a Stock Exchange.

2nd. That such fluctuation is not regulated by the natural law of supply and demand, but is solely owing to the *monopoly of the Bank of England*, the Directors of which have entered into monetary engagements which they knew, not only as merchants, but from actual experience, it would be impossible to perform when there was a great demand for gold abroad.

3rd. That they entered into such monetary engagements for the sole purpose of obtaining and continuing their *monopoly*.

4th. That such impossibility of fulfilling their engagements is proved by every weekly account published by themselves; such accounts showing that the liabilities of the Bank to pay in gold always exceed to an enormous amount the gold in its coffers; and even of this gold by far the greater part is in bullion, and therefore not available in a sudden emergency.

5th. That during the late panic, the week after the Directors had broken the law, their published account showed that the liabilities of the Bank to pay in gold exceeded 40 millions, while all the gold and silver it possessed was only £7,170,508, of which by far the greater part was bullion.

6th. That it is a mockery, a delusion, and a snare on the part of the Bank of England to pretend that it is always able to pay

its liabilities in gold; and such deceptive conduct ought not to be tolerated in a country which professes to be guided by a love of truth.

7th. That in addition to the immoral tendency of such deception, it is a fact incapable of denial, that the attempts of the Bank to bring back gold into its coffers, inflicted distress and ruin on the industrious classes in the years 1825, 1838, 1847, and 1857.

8th. That it is as certain as that 2 and 2 make 4, that the industrious classes must be again borne down by similar calamities, if through ignorance, corruption, or spathy, the *Monopoly* of the Bank of England is suffered to continue a disgrace to our laws.

#### TRUISMS

##### *On the Qualities of a Good Currency.*

1st. That its essential elements are, that it should be always sufficient in quantity, liable to no fluctuation in value, and portable,—and provided it possesses these qualities, the material of which it is composed is of no importance.

2nd. That Currency bears no other relation to the measure of value than that which exists between the article measured and that which is the measure, precisely the same relation which exists between the measure of length and the article measured—the yard and the yard of velvet or of cotton.

3rd. That in proportion as any article becomes one of commerce, so must it cease to be a good article for Currency, in consequence of the fluctuation either in quantity or in value, inevitably arising from the Law of Supply and Demand.

4th. That it is, therefore, impossible gold can be a good article for the Currency of this country whose trade is so enormous, because gold is an article of commerce practically proved to be liable to enormous fluctuation in quantity; the difference between that in the Bank in 1852 and in 1857 being above 200 per cent.

5th. That the same objection does not apply to gold being still

continued as the measure of value at £3 17s. 10½d. an ounce, it being of the greatest importance that the measure of value, although probably not the best, should never be altered.

6th. That a Government issue of paper money, not convertible into gold, limited in amount to less than its annual income or revenue, issued in relation to the present measure of value—gold at £3 17s. 10½d. per ounce,—would satisfy every element of a good Currency, being sufficient in quantity, liable to no fluctuation in value, and portable.

7th. That its sufficiency in quantity is proved by the fact that the revenue of the country exceeds 50 millions, without reckoning the Income-Tax, while the average of the amount of notes issued in the United Kingdom in November last was only 38,356,154.

8th. That it could not be liable to fluctuation in value, because it would always be received by the Government in payment of taxes at the amount at which it was issued, and would be a legal tender.

#### TRUISMS

##### *On Convertibility being only a MEANS, and not an END.*

1st. That Gold is a much less convenient Currency for domestic purposes, than Paper; and is, therefore, seldom used by the public, except in sums under the lowest amount of Note, or for special purposes.

2nd. That the convertibility of Paper into Gold can, therefore, only be desired to prevent the possibility of the Note being depreciated; and, hence, it is clear that Convertibility is only a *Means*, the *End* being to prevent the depreciation of the Note.

3rd. That the opinion of disinterested persons in favour of the necessity of Convertibility, arises from the fallacy that it is an *End* which must be maintained, although distress, ruin, and panic should *inevitably* accompany the attempt, when Gold is in great demand in other countries.

4th. That all well-regulated minds would rejoice at a fair

prospect of the same *End*—namely, the impossibility of the Note being depreciated—being attained by other means, which could not possibly be productive of distress or ruin to the industrious classes.

5th. That such means may be found in the principle of "*Limitation*," on the conditions that the party issuing the Note should be responsible now and hereafter, whose annual income should exceed the amount of *Limitation*, and by whom such Notes would always be received at par value in payment of rent.

6th. That such conditions can only be fulfilled by the party issuing the note being the Government of the country, irrespective of any Bank of any description.

7th. That a Government Issue of Notes, limited to the amount of its rent or revenue, and receivable in payment of the rent or taxes, and made a legal tender, although not convertible into Gold, would be a *Means* which would assuredly accomplish the desired *End*—namely, the impossibility of the depreciation of the Note.

#### TRUISMS

##### *On Monetary Panic being the Child of Convertibility.*

1st. That the fact that Monetary Panics existed in the years 1793, 1825, 1847, and 1857, when Convertibility was the law, and there was no such Panic between the years 1797 and 1819, when Non-Convertibility was the law, is quite sufficient to induce any disinterested person to suspect that Convertibility is the cause of Monetary Panic.

2nd. That such suspicion is confirmed to demonstration by the fact, that the Liabilities of the Bank to pay in Gold always greatly exceed its power of doing so.

3rd. That although such excess may not be of much importance when commercial affairs are favourable, and the exchanges are in our favour, yet woful experience has shewn how dreadful are the consequences of such excess when the exchanges are against this country, and Gold is wanted abroad.

4th. That at such periods every ounce of gold would leave

the coffers of the Bank unless the exchanges turned in our favour, to effect which object the Bank raises the rate of discount, which example is necessarily followed by every Bank in the kingdom.

5th. That if such increased rate of discount does not turn the exchange in our favour, then limitation of discount is next resorted to.

6th. That in this country all mercantile transactions, of the most wealthy as well as of inferior merchants, is carried on by bills of exchange, at various dates, according to the custom of the business in which they deal.

7th. That to raise the price of discount, and yet more certainly, to refuse it to bills of a long date, although taken without scruple at other times, must necessarily expose the least wealthy merchants and traders to bankruptcy.

8th. That many of such bankruptcies of the least wealthy must necessarily involve those of greater wealth, and the failure of these endanger the stability of those in a still higher position.

9th. That a continuance of such misery, when no one knows whom to trust, necessarily induces Panic—Panic produces hoarding—hoarding increases the evil—until, to escape from such confusion, the law is broken,—that law which compels the Bank to have a corresponding quantity of gold in its coffers for every note issued above a certain amount.

10th. That such distress, ruin, and panic, is *solely caused* by the attempts of the Bank to obtain gold, which would be unnecessary, except for the law of Convertibility.

#### TRUISMS.

##### *On the Effect the Proposed Measure would have on the Industrious Classes.*

1st. That the rate of Discount would be regulated solely by the Law of Supply and Demand, without the slightest reference to the quantity of gold in the country.

2nd. That, in consequence of the enormous wealth in the country, the rate of Discount could never be very high.

3rd. That, in consequence of the rate of Discount not being increased by the scarcity of gold, there would be no temptation for parties to continue that mode of investment when the rate was low; they would, therefore, invest in Government stock, railways, land, and houses; and thus, by diminishing the supply of capital used in discounting, raise the rate, which, therefore, could never be very low.

4th. That it is therefore tolerably certain that the rate of discount would be moderate, and not liable to any great fluctuation; thereby enabling the mercantile, manufacturing, and trading classes to calculate with more accuracy than they can possibly do under the present system, the lowest price at which it would be profitable to dispose of their goods, either to the foreigner or to the home consumer.

5th. That one of the greatest blessings which could be conferred on the industrial community would be to render the rate of Discount as little liable to fluctuation as possible.

6th. That the only way to effect this object is to render the rate of Discount solely dependent on the Law of Supply and Demand.

7th. That under the present system the rate of Discount is regulated by the demand for Gold in foreign countries.

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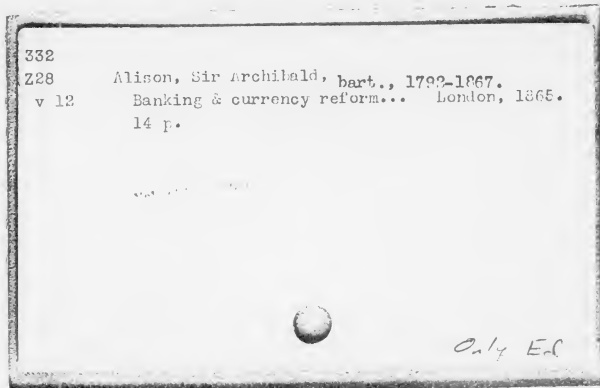
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## BANKING & CURRENCY REFORM,

BY

A. ALISON, Esq.

*Author of the Philosophy and History of Civilization.*

“Our system of Currency will remain imperfect until some mode shall be discovered of enabling it to apportion the supply and demand without reference to the influx or efflux of specie.”—*The Times*.

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By A. ALISON, Esq.

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## BANKING AND CURRENCY REFORM.

THAT the Bank Act creates a monopoly, and restricts the freedom of trade and action, none will attempt to deny; and if free-trade is the right principle, and monopoly and restriction the wrong one, it follows that the Bank Act of 1844 must be fallacious, and opposed to progress and prosperity. That it is so I have not the slightest doubt. The late Sir G. C. Lewis said that the Act did good in ordinary times, but that it did more harm in one day than all the good it did in ten years. Now, if the Act produces so foul a blot every ten years it must be a rotten system indeed. If, with so bad a system, we have reached a vacillating and precarious prosperity, what good may we not expect under a better system, for we have prospered *not because* of the Act of 1844, but *in spite* of it.

Let the Act be now reformed in the manner I shall venture to suggest, and the next ten years will prove the error of Sir Robert Peel's false system of currency and finance. When hundreds of our mercantile firms, who have been carrying on a legitimate business, apart from all speculation, are reduced from wealth to poverty, and when the hundreds of thousands they employ are thrown out of their daily bread in consequence of a bad system of banking, the people may well raise the cry of injustice. Yes, the Bank Act is unjust to the merchants and unjust to the workmen and their families. I do not, of course, blame the Bank directors for applying the screw, and bringing on a crisis; but I do blame the Legislature for allowing an Act, which has repeatedly proved itself to be wrong, to remain on the statute book.

In reviewing the history of commercial crises, it will not be necessary to go further back than 1837. The monetary difficulties of that year arose from a variety of causes, both political and social, the particulars of which it is unnecessary to give. In 1847 a severe crisis ensued. This was occasioned by bad crops, and an outlay of 400,000,000*l.* expended on railways in two years. This expenditure, coupled with a diminution of the income of the nation from a deficient harvest, could not fail to produce great distress. The interest of money reached 10 per cent., when the Bank Charter was suspended, and immediate relief given. In 1857 another crisis occurred, which was caused by the expenditure of the Crimean war, and the high price of corn: the Bank Act is again suspended, when the pressure ceases.

Many of our merchants attribute the cause of the present crisis (1864) to the fall in the price of cotton; but that is an idea which is at variance with sound principles of political economy. It has always

been held that a rise of price of raw materials injures trade; and if that be so, it follows that a fall will do good. As well suppose that an abundant harvest, and the consequent fall in the price of corn, would do injury to trade. But it is said that the suddenness of the drop has caused the failures; but if that were so the failures which have taken place would be confined to the holders of cotton and cotton goods; and as that is not so, we must look for some other cause for the existing evil. We have had two abundant crops of corn, so that the price of food is not the cause. We have had no war, or political troubles, nor any public loans, so these usual sources of difficulty have had nothing to do with it. On the contrary, trade and revenue have been in a prosperous condition for some years. For the last two years we have had to pay 25,000,000*l.* per annum more than usual for our cotton, which is equivalent to two bad crops of corn. To this evil must be added the extension of credit and trade effected by the Limited Liability Act of 1862. But against these two items must be placed a prosperous trade, and the absence of any unusual outlay on railways or loans. Now as the cause of the present crisis is not to be found in the passing events of the day we must look to our Banking and Currency Laws for the solution of the mystery.

The repeated suspensions of the Bank Act is the proof that the Act is unsound in principle; for if it were sound no suspension would be necessary. Want of confidence and a crisis are brought about by the Bank directors raising the interest of money to an exorbitant rate. When a medical man lays his patient on a bed of sickness by lowering medicines he says, "See how ill your friend is; but wait a little, and you will see how I will restore him to health." It is the same with the Bank Act. The Bank directors, in obedience to the provisions of the Act, apply the screw whenever the stock of bullion is lower than usual. Ruin to the mercantile interest is the consequence; and after the Bullion is restored to the Bank, the obnoxious Bank Act is held up as the saviour of credit and commerce.

The issue of Bank of England notes always remains the same, whatever the wants of the nation may be. In 1844, when the Bank Act was passed, the issue of notes was about 20,000,000*l.*, and it is the same now in 1864, notwithstanding that the imports and exports have more than doubled in that time! It is true that the issue of coin has increased, but not at all in proportion to the increase of population and trade. The Bank Act makes the supply of gold the measure of credit and trade. If the supply of that metal was unlimited it would be no check, and it is because it is a limited article that it is used. The Bank Act is, therefore, based on a fallacy, for to demand an impossible supply of anything is an absurdity. There is a limit to the supply of gold, and when that limit is reached trade must be reduced down to it. The Bank Act requires credit to correspond to gold; and, as the supply of gold cannot be increased, trade and credit must be reduced to restore the two to an equilibrium. Credit and trade are thus made to succumb to gold, which is a manifest injustice, and contrary to sound principles of political economy and legislation. If a check to overtrading must be had, let Parliament find a better check than an insufficient supply of gold.

I have lately read a series of articles in the *Economist* newspaper. The writer commences by admitting that the Bank Act is fallacious, but the remedy he proposes is no remedy at all. We are to be condemned to retain a bad law, and to place ourselves at the mercy of the Queen's Ministers to deliver us from it, whenever it becomes too bad to be tolerated. I ask that journal, which professes to be one of the organs of the Free-trade party, why they should desire the continuance of a monopoly when they advocate the opposite policy in corn and other commodities? Is that consistent?

What would we think of a man who wore the same coat when he was twenty stone weight that he used when he was only ten stone? We should say he was a fool who had put himself into a straight-jacket. And so it is with the Bank Act, for it keeps down the quantity of circulating medium to the same amount it was twenty years ago, although the trade of the country has doubled in that time. That such a thing could happen in a free country like England, is almost incredible.

The rate of interest since 1844, when the existing law came into operation, has fluctuated from two and a-half to ten per cent., which is a degree of variation unprecedented in trade. This indicates the existence of a fictitious state of our monetary laws, for if these laws had been based on natural laws, or in harmony with them, no such excessive oscillations or disturbances would have taken place. While the rate of interest was fixed at a maximum of five per cent. the evil of our currency laws, as was to be expected, was not felt half so much as after that restriction was taken off. I do not of course advocate a return to "restriction," but I say, it was not fair to take off that restriction without at the same time reforming the other portions of the system upon the same free-trade principles. To take off restrictions in one thing, and keep it on in another is only adding to the evil of our monetary system as has been abundantly shown by the result.

Great oscillation in the rate of interest is an evil, the magnitude of which it would be vain to attempt to estimate and that must continue so long as the present system remains unreformed. What is wanted is a moderate rate of interest, with only slight variations, an object which will certainly be obtained by the introduction of Exchequer notes into the system.

But what is the remedy? I reply there is only one remedy, and that is an issue of Government legal tender notes. All other reforms which do not include that will be found to be no remedy at all, but merely a change or a new shuffle of the cards. One party proposes an issue of one-pound notes as a remedy, but that would only make things worse, by increasing the tendency to run for gold. Another proposes that the Bank may be allowed to issue as many notes as it pleases, with an obligation to hold gold to the extent of say one-third of its issue. This is certainly an improvement on the present law, but it cannot be called a remedy for a crisis which has been caused by the want of gold, for nothing but a substitute for gold can be a remedy. If I am told that this will have the tendency of displacing Bank of England Notes and gold; I answer that the Ex-

chequer notes will not be for less than £100 each, which would not interfere with the general circulation of the country. What is wanted is an ample supply of circulating medium, independent of gold or any thing else, and that will be got by the issue of Exchequer notes, and in no other way I can imagine. I am aware that some will object to these notes because they will be inconvertible into gold; but that, instead of being an objection, is the very reason why they are necessary to a sound system of banking and currency. *Convertibility* must stop somewhere, for if every thing must be convertible into something else, there can be no stability or resting-place. We would then be moving in an everlasting circle, which must end in disappointment and ruin. Those who have pinned their faith to the dogma of *convertibility* may not like the present proposal; but if they choose to be slaughtered every ten years for the sake of upholding opinions, which the experience of the present crisis has proved to be wrong, they are welcome to do so. They have now been told the truth, and if they will not listen to it they must be contended to bear the consequences.

It is important to distinguish between Currency and Capital. so that we may have a distinct conception of the causes of a money panic and the disastrous consequences which follow. The word "money" is sometimes used to denote capital, sometimes currency, which leads to much confusion. Strictly speaking the term should be confined to capital. It is clear that currency (coin and bank notes) is not the only thing that is money or capital, for monied men or men of capital possess only a few pounds in coin and notes. Then as the term "money" must be applicable to more than coin and notes; what is it? I answer that money or capital is property of all descriptions. I possess goods, houses, lands, shares, debts owing to me by my bankers and others. These are all capital or money and constitute the amount of my means after deduction of the sum I owe to others.

Currency is coin and notes that have been declared legal tender by Act of Parliament, all else is only capital or money. Gold, Silver, Copper Coin and Bank Notes is strictly speaking currency and not capital, for they are their intrinsic value, which is the use and object of currency. Although Specie may at the same time be called money owing to the value of the metals it contains, yet considering its use and object, it is essentially currency. Currency is coin and legal tender notes or circulating medium, by which capital is transferred from hand to hand. It is therefore quite distinct from Capital, for the thing which transfers cannot be the same as the thing transferred. Such being the important functions of Currency it will be understood that great calamities must ensue whenever a want of it occurs, or a want of confidence in the ability of the system to supply it in the future. Look at a game of cards when a short-coming of counters occurs. A kind of panic and a stoppage of the game takes place although every one knows there is sufficient capital in the pool to meet engagements. This panic, it will be observed, occurs not from the want of capital, but from the want of currency, as in the case of the money crisis through which we are now passing, which has caused a

serious stoppage of trade, as shown by the falling off of our imports and exports. Coin and bank notes may be considered mere counters; and all we have to do to perfect the system is to see that there is always enough of counters, and these of a sound description, equal to any strain that may come upon them. At present we have neither enough counters nor these of a quality equal to the contingencies of trade. We may have enough for fair weather but certainly not for foul, and it is principally to provide against contingencies that the exchequer notes are wanted.

Something must be inconvertible or there can be no stability to any system of currency, of which the experience of our present system is the evidence. At present, gold alone is made inconvertible; but owing to that metal being in short supply, it is not at all suitable for being made the inconvertible basis of any sound system of currency. Gold, after a long experience, is found to be dangerous and treacherous in the extreme, as the basis of currency. It is like the shifting sands of the sea shore, which are there to-day and away to-morrow; and that being so, the sooner we find a substitute for it the better. Let our currency be based partly on gold and partly on Government legal-tender notes; or, if a mixed basis be objected to, exclusively on Government, and we shall have a stable and sound system of banking and currency. Then we shall be able to dispense with the obnoxious restrictions of the Bank Act, for it is because our currency is founded on a false basis that these restrictions, so ruinous to our trade and commerce, have become necessary. The Bank may then be safely allowed to issue as many notes as it pleases, provided it holds at least two-thirds of the amount of its issues in Government notes and bullion. As the Exchequer notes will not be of a less amount than £100, and as they will not be convertible into gold, they will not interfere with the circulation of the Bank, whose issues may be expected to remain as large under the new system as they are at present.

If it be said that our capitalists will never consent to free-trade in money, I point to the Protectionists, who were at one time as much opposed to free-trade in corn as the bullionists are now opposed to free-trade in money. The Protectionists thought free-trade would be their ruin; but now that they see the result they are convinced that they were in the wrong, for agriculture has flourished ever since; and it will be the same with free-trade in money. How is it possible that capitalists can gain by the occurrence of money panics every ten years? They must put their money somewhere, and all stocks and shares suffer by these convulsions. As for panics raising the interest of money, it is just the reverse; for to raise interest to an exorbitant rate is certain to reduce it lower than ever, which has been the experience of all money panics. We may soon have the interest as low as it has ever been before, but that will be no sign of health or recovery; on the contrary, it will be a sign of deadness and collapse. This shows how absurd it is to suppose that capitalists can have any interest in maintaining the law as it at present stands. No possible reform can undo the evil which has been committed, but will prevent any future crisis, and hasten the recovery from the present collapse. Unless something is done our imports and exports will fall off, the revenue

will decline, and taxation, instead of being annually reduced, a thorough reform will be increased; and if the income-tax be called on to make good the deficiency, which is more than probable, the moneyed interest will then see the folly of maintaining the present system.

The practice of attempting to restore the finances of the country by raising the rate of interest is short sighted and ridiculous in the extreme. The Bank raises the rate of interest with the object of drawing gold from other countries and filling its own coffers. This is robbing Peter to pay Paul. The immediate result is, that other countries are obliged, in self-defence, to raise their rate of interest to the same rate as the Bank of England, so that they may prevent the gold going out of the country. A strife for gold between the different countries ensues, and a crisis which begins at London spreads to every country in Europe. The relief which the Bank gains in this way is thus only temporary. It is a relief that is gained at the expense of a crisis which throws back trade for years, and involves much distress, not only in England, but throughout the world. When will our legislators be wise, and give up this foolish reliance on a metal which is as certain to prove false and treacherous as that the sun will rise to-morrow?

The *Times* newspaper says:—"Our system of currency will remain imperfect until some mode shall be discovered of enabling it to apportion the supply and demand for currency without reference to the influx or efflux of specie." This important announcement shows great discernment on the part of the writer, for it goes to the very root of the evil, and points out where the remedy is to come from. The discovery here alluded to I claim to have made. To carry out this great principle we must of necessity come to an issue of paper money that is inconvertible into gold, for unless we do that we cannot arrive at that state of perfection which is essential to the progress and prosperity of the nation.

When the question of reforming the currency was advocated in 1857 a reduction in the standard was demanded, whereas by my proposal no alteration of the standard is involved. The existing standard is a quarter of an ounce of gold, or thereby, to a pound sterling, and that standard I propose to recognise in the issue of Exchequer bank notes. When a prejudice existing in the public mind against an inconvertible currency is spoken of, we must recollect that prejudice is mixed up with the idea of reducing the standard; but as I propose no such change of standard, I hope no one will do me the injustice to imagine that I give ear to such crochets.

A money crisis must arise from one or other of two causes, or a combination of both—1st, from a want of capital; or, 2nd, from the want of a good and sufficient circulating medium. While the first cause, the want of capital is natural and admits of no remedy, the second cause, a want of good currency, is distinctly removable. It is one of the primary duties of a Government to provide the nation with a safe and convenient currency; and as the currency of this country has been found both unsafe and insufficient, the Government is bound in justice to the people to make such reforms as may be necessary to the perfection of the system.

The question now arises—Has the present crisis come from the want of capital or from the want of a good and sufficient currency? I say that it has arisen mainly, if not entirely, from the want of a good currency. Capital is of two kinds—*fixed* and *floating*. The floating capital available for becoming fixed consists of the savings of the nation. For the sake of argument, this floating capital may be set down at fifty millions per annum, or about ten per cent. of the national income. If more than that sum be annually laid out on railways and other fixed property, capital will be scarce and a crisis will ensue. But, if we do not fix more capital than our savings amount to, no crisis can occur from the want of capital. I am of opinion that we have not been fixing capital beyond the amount named since the crisis of 1857, it therefore follows that the present crisis has not arisen from the want of capital, but from the want of a sound and sufficient system of currency. But it is time to come to business, and state distinctly the nature of the new species of Currency I wish to introduce. Here is a draft of the Exchequer bank notes:—

"£100 sterling. This Exchequer bank note, for which the full sum of one hundred pounds sterling has been paid to her Majesty's Treasury in gold and Bank of England notes, is a legal tender within the United Kingdom, and available for the payment of debts and liabilities, and shall at all times rank of equal value with one hundred sovereigns of the current coin of the realm. This note will likewise be received at the Custom-houses and Inland Revenue offices in payment of duties and taxes."

This Note bears on its face two complete checks on the Government. First, the exchequer cannot issue notes unless they receive the full price for them, which secures the notes from ever being depreciated in value. Second as the Government binds itself to receive the notes in payment of Duties and Taxes, they can always be sent back on them which is almost equivalent to a promise to pay. Nothing but an actual want of these notes to supplement the want of gold can bring the measure into actual operation, and if that want exists there is no reason why we should not have them, on the contrary every reason we should have them.

It will be observed that these notes will be entirely different from Exchequer Bills, which are not a legal tender. They will likewise be different from ordinary bank notes which are convertible into gold. The issue, therefore, of Government notes will not interfere with the present currency of the country, but will only supplement and support it, instead therefore of the banks having any jealousy or dislike to the innovation, they will hail its introduction with open arms, for it will consolidate and strengthen the entire system. Banking has always been considered an unsafe business owing to the infirmities of our currency system, which exposes the banks to a run for gold in payment of their deposits and notes. But when there is an ample supply of Exchequer bank notes to fall back on banking will become as safe as any other business. When we have a substitute for gold no bank can fail which is possessed of means, which cannot be said at present. Look at the history of banking in past years, and see how many banks have failed which had

ample means, but were obliged to stop payment in consequence of the want of gold; but with the new system that can never happen.

I do not propose an unlimited issue of Exchequer notes. On the contrary, I distinctly limit the issue to £20,000,000, which will probably be sufficient to give entire security to the currency and banking of the country. I must further explain that it is essential to my plan not to pay interest on the Exchequer notes, for that would complicate every transaction, and make the notes less available for every-day business.

Having now stated the nature and object of the proposed Government notes, the question arises, will they ever become depreciated? I reply, that they will not. It will not be legal for the Exchequer to issue any notes unless the full price has been paid for them, and of course nobody would purchase notes of them at the full price, if they could buy them in the market at a discount. It follows, therefore, the Exchequer bank notes can never fall to a discount or become depreciated in value. Exchequer notes, as now defined, cannot be called fictitious money, for the full sum they represent has been paid for them in gold and Bank of England notes. They will pass from hand to hand, and be the means of transferring the money they represent from one person to another. The Bank of England will at once purchase large quantities of these notes to hold against their own issues of notes. Large sums will likewise be taken by the other banks in England, Scotland, and Ireland, to hold against their issues. These sources alone will probably absorb the greater part of the issue of £20,000,000.

That the proposed issue of Notes will be acceptable to the Government cannot be doubted, for it will enable them to pay off the £11,000,000 due to the Bank of England without adding to the national debt. But this is not all for it will effect a saving of £800,000 per ann. in interest as there will be no interest to pay on the Exchequer Notes. A considerable reduction of taxation will thus be effected which will be a great boon at a time when the revenue is likely to fall off owing to the present depression of trade.

Two letters have appeared in the Newspapers which disapprove of my scheme without attempting any refutation of it; and as condemnation without refutation amounts to nothing, I might have passed them ever in silence. For the sake, however, of meeting every possible objection, I will now refer to them very briefly. The first letter alludes to the Assignats of the first Napoleon, and the last to the "Greenbacks" of Abraham Lincoln, and both writers assume that Exchequer Bank Notes will be the introduction of a similar system into this country. Now I deny that there is any similarity between the two systems, for my proposal is limited to £20,000,000, while theirs is without limit; and, while Napoleon and Lincoln sold or sell their issues at a depreciated value, the notes I propose for this country cannot be issued except at their full value.

My proposal is based on the assumption that there is a real want of inconvertible notes. If, however, on trial it be found that no such want exists, no Exchequer notes will ever make their appearance; but, if such a want really exists, they will be taken by the public with

eagerness. The objections, therefore, which have been raised on the assumption that the proposed Exchequer notes will be depreciated, fall to the ground, for that can never happen if my plan be carried out in all its integrity. It will only be the abuse of the plan and not by its use that any evil results can follow, and it is not fair to estimate the value of any reform on the assumption that it will be abused. We have only to surround the plan with the necessary checks by Acts of Parliament to prevent its abuse, and I am happy to say that in the present instance these checks can easily be made sufficiently stringent to meet any possible contingency.

The property moveable and fixed of the nation may be valued at six billions pounds sterling. If all the mortgages on property, all the cheques and bills of exchange, and all other debts and liabilities were paid off, nothing but actual property would remain. Suppose that every one was to make a return of what he owes to others, the gross was owing to him and deducting what he owes to others, the gross amount of the national debt will fall to be deducted, and the nett sum of six billions will remain, which represents the entire wealth of the nation. It will be observed that in this estimate I have added nothing for floating capital, for if the whole of our liabilities were liquidated or discharged, there would be no floating capital left. I cannot conceive of floating capital having any existence if all our lendings and borrowings were squared off and settled, except in the shape of goods and fixed property, for what would it be? it would be nothing and nowhere. I therefore conclude that the entire wealth of the nation is represented by its property, moveable and fixed.

It is the vast amount of our national debt which creates so much floating capital, an evil which it would be difficult to exaggerate. The larger the amount of floating capital, the more difficult is it to keep it afloat, and that is the reason why England, which has double the amount of floating capital of any other nation, suffers so much more from monetary panics than any other country. France is not burdened with half the amount of debt that we are; she consequently suffers much less from financial convulsions than we do. America will soon have a debt equal to our own, but as she cannot be supposed to have sufficient property to represent it, she is not likely to be able to keep her debt afloat, or pay interest on it, for any length of time. Repudiation was the end of the assignats of France, and it is probable that the greenbacks of America are destined to meet the same fate. The proof that the debt of England is legitimate, and not beyond our means, is that we have always been able to pay interest on it, but that is not likely to be the case in America, which is a young country only half developed.

The enormous amount of our floating capital caused by our large national debt and equally large and increasing trade, calls for a complete reform of our Currency Laws. We cannot pay off our debt or reduce our trade without injuring ourselves, but we can deprive a necessary evil—a large floating capital—of its sting by the introduction of a new species of currency (Exchequer Notes), which will give stability and a power of expansion to the whole system. In these

pages I have shown how this great and comprehensive reform may be effected, and how a heavy national debt may be made much less burdensome than it has been hitherto. The subject may now be considered exhausted, as I am not aware that I have left a single question unanswered or unexplained. If however any thing has been overlooked, I will be glad to supply the omission, and meet any objections that may be raised.

I shall conclude by stating the leading benefits which the introduction of Exchequer Bank notes will confer on the nation:—1st. It will enable the Legislature to make it imperative on all the banks to hold Gold and Exchequer notes to the extent of at least two-thirds of their issue of notes, for the security of the public, which cannot be done at present, owing to the want of gold. 2nd. It will make the rate of interest at all times much more uniform than heretofore, which will be a great benefit to trade. 3rd. It will prevent the occurrence of any commercial crisis arising from the want of gold or the fear of that want;—we may have commercial crises from the want of capital but never from the want of gold. 4th. It will effect a saving to the Government of at least £800,000 per annum in interest and allow it to pay off its debt to the Bank of England without adding to the National Debt. 5th. It will greatly increase trade and commerce, for in the absence of money crises, trade will increase naturally which will enlarge the revenue and enable the Government to reduce taxation. 6th. It will enable the Legislature to apply the principle of Free-Trade to money as well as to corn and other commodities, by abolishing all restrictions on the issue of notes. All parts of our commercial code will then harmonize instead of being divided against itself as it now is, for so long as one part of our commerce is based on protection and another part on the opposite principle of Free-Trade, that must be so.

That Banking and Currency Reform, as now proposed, is equal in general importance to the Repeal of the Corn Laws cannot be doubted, for while free trade in corn gives a cheap loaf to every household, free trade in Banking and Currency will give the money to buy it. The one reform without the other is only a half measure. In carrying out this great reform I doubt not we shall have the earnest and active support of Mr. Cobden and his party. I trust we shall likewise have the support of Mr. Gladstone, the Chancellor of the Exchequer, who will thus add to his great reputation by becoming the author of one of the greatest and most beneficial reforms that was ever effected in this or any other country.

The loss occasioned by money crises may be estimated at £100,000,000 sterling every ten years, at the very least. Such being the fearful loss occasioned by the present imperfect system of currency and banking, the benefit of the proposed new system to all classes of the community may be estimated. And seeing that the adoption of Exchequer Bank Notes will for ever prevent the recurrence of these fearful scourges on the industry and wealth of the nation, I trust I need offer no apology for bringing the proposal fully and fairly before the public.

72, SLOANE STREET, LONDON.  
January, 1865.

*The following Letter appeared in the "Money Market Review" of 21st Jan. 1864 :*

#### EXCHEQUER BANK NOTES.

TO THE EDITOR OF THE "MONEY MARKET REVIEW."

SIR,—I hope you will allow me to make a few remarks in reply to the letters of "J. W." and "A Subscriber," which appeared in the "MONEY MARKET REVIEW" last week.

The object of my letters, proposing an issue of Exchequer Bank Notes, was to show that the want of gold has been the main cause of money panics, and that I had found a substitute for gold, which would at all times prevent the occurrence of a money panic arising from the want of gold or the fear of that want. If your correspondents wish to attack my plan in good earnest, which they are quite welcome to do if they can, they must be prepared—first, to say that the want of gold has nothing to do with commercial crises or exorbitant rates of interest; and, second, that the remedy I propose for the want of gold is not a remedy at all. These are the questions which have been raised, but your correspondents, in pronouncing my scheme a fallacy, have conveniently passed them over.

Any one may assure himself that the want of gold is the great cause of our monetary difficulties if they will look over the money articles of the daily and weekly press for the last three months. Take the MONEY MARKET REVIEW of this week as an example. You say, "The panic of 1847 was due to one cause alone—the export of bullion to buy food. The great railway speculation which preceded it rendered the money market more sensitive than it would have been without it, but the export of bullion produced the panic, and without that export there would have been no panic." Now turn to the *Times* of the 6th December last. That journal says:—"The withdrawal of 260,000 sovereigns for Egypt, which took place yesterday, created as much anxiety this morning as if the resources of the Bank were at a point at which the slightest reduction would necessitate a return to the most stringent measures." These remarks not only prove the existence of panic, but they point out the cause of that panic. Those who were best able to judge felt that the entire trade of the country was placed in jeopardy by a single shipment of gold.

Your correspondents recommend me to look at the state of affairs during the twenty-two years, from 1797 to 1819, when cash payments were stopped by Act of Parliament, which caused a depreciation of bank notes of thirty per cent. If they mean to say that the Exchequer notes now proposed can ever be depreciated, I meet that assertion by a flat denial, for so long as the Government accepts their own notes in payment of duties, and they clear themselves from issuing notes, except on payment in full, it is impossible that Exchequer bank notes can ever fall to a discount.

The contingency of a stoppage of cash payments is the very thing I wish to prevent and avoid by the introduction of a limited amount of inconvertible notes, for until we do that we shall always be exposed to that danger. It is the fear of that contingency which causes a panic and a crash, and we all know how near we were to that only two months ago. Let us not imagine, because we have tided over the present difficulty, that the danger is past, for the causes of danger remain, and until these causes are removed we must expect a renewal of panics. Neither let it be supposed that we are only to have panics once in ten years as before. Our trade has assumed such vast proportions of late years that the past can no longer be taken as the index of the future. No, the chances are that we shall now have panics much oftener, which shows how necessary it is to apply the remedy without delay.

I agree with your correspondents that my scheme would not make us entirely independent of gold, which is neither desirable nor practicable. It would only enable us to maintain the convertibility of Bank of England notes, and so prevent a suspension of cash payments. At present, we have no security against that suspension, for although the Government has made itself responsible for the payment of Bank notes by declaring them a legal tender, yet if the Government were called on to redeem its promise to pay, it could not do so. Then an Act of Parliament suspending cash payments would be passed, as was done in 1797, which would once more throw the whole affairs of the country into a state of disorder and ruin. But with inconvertible Exchequer notes in circulation, or with power to the Exchequer to issue such in case of need, a suspension will be impossible, which will be the best possible basis of confidence, without which there is no security against the occurrence of a panic.

Your correspondents assert that the public would not be disposed to take the notes of the Exchequer, but as these notes would be as safe a security as Consols, their fears on that point must be groundless, for Consols have always been considered the best of all securities. It will be, of course, optional with the public to buy Exchequer notes of the Government, and it can surely do no harm to give the public power to do so if it think fit. If your correspondents will read my pamphlet on "Banking and Currency," their fears on that point will be removed.

72, Sloane Street, January 17, 1865.

A. ALISON.

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BANKS  
AND  
BANK SHAREHOLDERS,  
  
*WITH REMARKS  
ON THE LEGITIMATE OBJECTS  
FOR FUTURE LEGISLATION.*

A LETTER TO  
WILLIAM RATHBONE, Esq., M.P.,  
BY  
WILLIAM LANGTON.

MANCHESTER:  
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1879.

"There is a moral obligation, which it is the duty of a civilized and Christian nation to enforce by law, to pay debts, perform contracts, and make reparation for wrongs."—See quotation from *Serjeant Cox* in note at page 5.

## BANKS AND BANK SHAREHOLDERS.

DEAR MR. RATHBONE,

It was very refreshing to read the following sentences from your pen in the *Economist* of 25th January last, alluding to the sympathy for the suffering caused by the disastrous breakdown of the City of Glasgow and another Bank : "We shall have demands for a great deal of legislative interference with the Banking system of the country. The tendency of the present day is to assume that Parliament can remedy many evils, the real cure for which can only be found in the vigilance and prudence of the public at large."

The public press generally has teemed with crude suggestions, often betraying profound ignorance;\* for example, we find on 11th of February, in the *Spectator*, usually a very thoughtful paper, the following remarks when alluding to the Annual Meeting of the Union Bank of London, and the desire expressed for a general law to effect the limitation of the liability of Shareholders in unlimited Banks—a law, it says, "which is obviously necessary, as in the similar case of the right to issue bank notes, in order to protect the public from itself. When Shareholders can be found, as in England and Scotland, to purchase shares in an unlimited Bank at rates which pay them only five per cent., they obviously need legislative protection against their own folly." Comment is superfluous upon this misrepresentation of the law as affecting local bank note issues, and upon such a motive and object of legislation.

The *Times*, moreover, has encouraged the great London Joint-Stock Banks to force a limitation of their liability upon their creditors by combining in a common action for effecting this purpose.

\* It is with satisfaction that I can call attention to an article in the *Guardian* of 1st January last, in which the matters recently agitating the public mind have been discussed in a calm and intelligent spirit, so opposite to that which has pervaded the generality of newspaper contributions.

At the annual meetings of these Banks, the craving to abridge their legal responsibilities has been exhibited in a very unworthy manner. Whilst they recognise, in the superior security which they have hitherto offered, the cause of their pre-eminence and the consequent magnitude of their profits, they also confess their belief that the action of any single Bank would prejudice that Bank in favour of those which maintained the *status quo*.

The process for effecting the change from unlimited to limited liability as laid down by the law may be cumbrous, for it very properly involves the necessity of a notice being given to all creditors. What, therefore, can be the meaning of the statement made by the Chairman at the annual meeting of the London and Westminster Bank, that "complete facilities would be afforded them as to removing the technical difficulty in the way of making the change?" The inference drawn by the *Times* is that the Ministry have already been communicated with, and are willing to simplify the process of conversion by an Act of the Legislature.

The proprietors of the great London Banks are no doubt a powerful body; but a Government which contains two such men as a Chancellor of the Exchequer of large official experience, and a Home Secretary well trained in the principles and administration of the law (and moreover a practical man of business), can surely not lend itself to the perpetration of a *job*, which any Act to facilitate the repudiation of legitimate responsibilities would certainly be. Nor can I believe that a British Parliament will ever sanction the arbitrary abridgment of the rights of creditors.

The only defect that I can find in the Act of 1826 (which for the first time legalised in England the establishment of Banks with more than seven partners) is that it did not protect individual shareholders from being singled out and victimised in the case of failure. This was naturally a bugbear to men having the reputation of wealth, and often deterred them from joining Joint-Stock Banking Companies. Incorporation under the Companies Act of 1862 supplied a remedy for this evil by requiring that, in winding up, all shareholders should be made contributors only in proportion to their respective holdings.

When the Act of 1862 was passed, legalising the formation of

Joint-Stock Companies having limited liability, Discount Houses and Bankers were not at first allowed to avail themselves of this privilege, for a very sufficient reason. These institutions deal exclusively in *credit*, or (as Professor Bonamy Price prefers to say) in *debt*. They have no ostensible plant as Railways have, no limitation to their borrowing powers, no rates or tolls which can be mortgaged to Bondholders, nothing to warrant their indebtedness except character, reputation, and declared capital. The privilege of limitation of liability having been granted later on to Discount Houses, it could not consistently be refused to Banks. Rightly or wrongly, this is now the law; but it is defective in not requiring that there should be an adequate subscribed capital, proportionate to the amount called up, a most important element in securing the safety of creditors.

All classes cannot be too often, nor too earnestly reminded of the exposition of the law of partnership, as propounded by Serjeant Cox in his work entitled "The Law of Joint-Stock Companies and other Associations." [See note at foot,\* which is a reprint of a communication made by me to the *Spectator*.]

#### \* UNLIMITED LIABILITY OF BANK SHAREHOLDERS.

(TO THE EDITOR OF THE "SPECTATOR.")

Sir,—I have carefully read and re-read your article of December 21st, on "The Unlimited Liability of Bank Shareholders," and can come at last to no other conclusion than that you have not succeeded in controverting the doctrines laid down by Serjeant Cox, in his work entitled "The Law of Joint-Stock Companies and other Associations." Serjeant Cox writes:—

"The law of partnership prescribes that each partner shall be answerable for the debts and contracts of the other partners, made within the reasonable scope of the business of the partnership. This law was founded upon the principle that he who acts through an agent ought to be responsible for his agent's acts; that it is politic, as well as just, that he who shares the profits of an enterprise should be subject also to its losses; that there is a moral obligation, which it is the duty of a civilised and Christian nation to enforce by law, to pay debts, perform contracts, and make reparation for wrongs. Limited liability is founded on the opposite principle, and is designed to enable a man to avail himself of the acts of his agent, if advantageous to him, and to avoid responsibility for them if they should be disadvantageous; to speculate for profits, without being liable for the losses; to make contracts, incur debts, and commit wrongs, the law depriving the creditor, the contractor, and the injured of his rightful remedy against the property of the person of the wrongdoer, beyond the limit, however small, at which it may please him to determine his own liability. Thus it practically enables a trader to speculate for the chances of indefinite gain, without being liable for more than a definite loss. Limited liability, which has now been adopted into our commercial legislation, does not mean, as is commonly supposed, the right to make with those with whom we deal a special contract that we shall not be liable beyond a named sum; such a contract was always within the power of persons dealing together;

Had the City of Glasgow Bank been one of limited liability, its proprietors, about 1250 in number, whose shares were fully paid up, would not have lost more than the cost of their investment; but the creditors, estimated to be no fewer than 50,000, would not have recovered one farthing of the six or eight millions due to them.

In the *Economist* of the 1st February last there appeared an article, entitled "Joint-Stock Banks in London," very elaborate and interesting. At its close it enumerated the points of inquiry and discussion at present occupying the attention of the public. On the first of these, "limited or unlimited liability," I have already offered some observations. I shall now, therefore, confine myself to the other points.

THE FORM OF BALANCE SHEET cannot be considered by itself, without reference to the question of "THE PUBLICATION OF PERIODICAL RETURNS OF ALL THE BANKS IN THE COUNTRY." Be

nor is it, as some imagine, a freedom, hitherto denied to partners, to make whatever conditions of partnership they please as between themselves, for such power also has always existed. But limited liability, as now established, is a privilege given by the law to seven or more partners to make terms of partnership among themselves that shall be binding upon all other persons; that is to say, it permits A, B, and five others to agree together that they will not pay their debts, nor perform their contracts, nor repair any wrongs they may do beyond a limit determined by themselves, and then by public notice of that limitation to make the arrangement *inter se* binding on third persons. This result is effected by depriving the persons dealing with them of the right which justice demands and the laws of all civilised countries have hitherto recognised to recover debts and enforce contracts, and by taking from the public the right to obtain redress for injuries done."—"The Law of Joint-Stock Companies and other Associations," pages 1 and 2, by E. W. Cox, Serjeant-at-Law.

Applying the test of Serjeant Cox's definition of "the moral obligation" upon "a civilised and Christian" community, I do not see how your proposal can be justified—that the Legislature should "compel all banks to limit the liability of their shareholders." Ask yourself the question, what would have been the fate of the depositors in the City of Glasgow Bank, had the liability of its shareholders been limited? It is not easy to see the force of your argument—that a man who recovers the whole of a debt after a certain lapse of time is scarcely better off than one who has been obliged to accept a dividend, or to admit the soundness of your position that it is a natural consequence of the vitality of a banking corporation that its constituency will deteriorate. My own personal experience of one of the institutions thus branded, ranging over an intimate acquaintance of forty-two years, during twenty-two of which the management was in my hands, leads to an entirely opposite conclusion. The proprietary was enlarged and distinctly strengthened during this period. It seems to have been forgotten by some of the parties to this controversy that Directors are not required to accept the transfer of shares, without being satisfied of the responsibility of the would-be purchaser.

I am, Sir, &c.,

W. L.

it remembered that the publication of these returns is not obligatory on any of the Banks carrying on business under the provisions of the Act of 1826, whether incorporated under the Companies Act of 1862 or not.

The right to be made acquainted with the details of the business for which they are responsible has always been inherent in copartners, whether few or many, but the general public have no right to claim a revelation of the internal affairs of any concern in which they are not individually interested. The practice of publishing to the world the Balance Sheets of unlimited Banking Corporations was of gradual introduction, evidently with a view of proclaiming their success. It has unquestionably made the stock of these establishments an object of speculation—a result detrimental in many ways. One of these only will I point out. It is one incidental to the weakness of human nature. *Self-interest* is apt to cloud the judgment of shareholders and directors as to what will best conduce to the stability of a Bank. Hence, probably, the share capital has been kept down with the view of keeping up the rates of dividend. The London Joint-Stock Banks were once described, in the homely words of an old merchant, as being "very large tops spinning upon very small pegs." Had the capitals been larger their earnings would certainly not have been less, and the rate per cent. of their dividends might not have brought forth so much rivalry. Mr. Gilbert pointed out long ago that the payment of a high rate of dividend was distinct evidence of too small a capital.

If henceforward the right of "the public" to have Bank Balance Sheets submitted to their critical consideration is to be recognised, there can be no doubt that they ought to be given in more detail than is usual at present. But, even now, invidious comparisons are apt to be insinuated, and the liability on acceptance for instance ignorantly criticised. The London agents of Country Banks cannot avoid being drawn upon under local usages of trade. Marginal credits are great conveniences and even economies in certain foreign trades, and, if granted with circumspection, are as little risky and as legitimate as any other kind of accommodation given to a customer. Deposits, which form the staple bread-winner of Banks, are necessarily precarious in their tenure, especially the larger ones, while the

maturity of an acceptance is known long beforehand, and of course provided for by appropriate cover. The boast of a freedom from such engagements is therefore simply absurd. Such liabilities may be kept as well in hand as any other.

When permission was given under the Companies Acts to register Discount Companies and Banks, as claiming the right to limit their liability, they were very properly required not only to recognise this limitation in their title, but also to exhibit to the public a statement of their liabilities and assets. It has been a self-imposed task by the Companies (which, like the Private Banks recognise their "moral obligation to pay debts, perform contracts, and make reparation for wrongs") to extend the publication of their accounts to other than their co-partners, and if a new exaction is to be made for "*the publication of periodical returns of all the Banks in the country,*" how about the Private Banks?

THE CHARACTER OF AUDITS.—The very elaborate exposition of the system of internal and continuous audit given lately by some of the great Metropolitan Banks must, I think, have satisfied the public mind that no official or professional audit could be carried on in a manner so effective, and that it would necessarily be very perfunctory in comparison.

Were such a duty thrown upon a Department of the Government it would require the employment of a large and expensive staff, at the risk of relaxing the sense of responsibility on the part of the Directors.

The two other questions which are raised—the KEEPING OF ADEQUATE RESERVES AND THE ALLOWANCE OF INTEREST, are matters of management with which I do not see how legislation can interfere. The first requires further explanation. *Reserves* may mean undivided profit held back to meet contingencies, and there is no object in requiring a separate investment of this fund, or of any other, apart from the general assets of the business. Moderation in the dividends paid out is the best security for an adequate accumulation under this head. If, however, the word *Reserves* used by the *Economist* refers to the amount of deposits locked up unemployed, experience is the only guide as to the proportion required for safety to be held unprofitably.

THE ALLOWANCE OF INTEREST has not been regulated with much consideration by the London Joint-Stock Banks. The rule of thumb which guided them, led them frequently into an awkward dilemma. The minimum rate of discount charged by the Bank of England was fixed by that Institution, not always as an index of the value of loanable capital in the money market, but frequently with the view of acting on the foreign exchanges; so that it has happened that one per cent. under that rate promised to depositors was higher than the interest that could be obtained by employment of the money on undoubted securities. The advertisement of their rates of allowance naturally became a standard for the practice of the Country Banks; and there can be little doubt that it established throughout the country too high an average rate for the use of floating capital. Banking deposits ought not to be allured by such rates of interest as would keep large sums of money uninvested in current securities. The Banks should look upon them as placed in their hands for temporary convenience.

If it were desired to fix a standard by which the public might judge the prudent administration of a Bank, that standard might be found in a comparison between the advances to customers and the amount of paid-up capital. No concern ought to be satisfied with a reserve which did not cover all loss of interest by idle balances, cost of premises, and rebate on bills—apart from a guarantee or suspense account, covering all bad or doubtful debts; the employment of deposits being then confined to Bills, Government Stocks, or other easily convertible securities.

The objects of future Banking legislation are ample, without attempting to interfere with what should be left to the "vigilance and prudence of the public at large."

The interesting pamphlet lately published by Mr. R. H. Inglis Palgrave, entitled "The Bank Shareholder's Liability," brings to our consideration a very ingenious proposal for the establishment of Banks, chartered by the Government for limited periods, and liable to a thorough investigation of the state of their affairs before they could obtain any renewal of their privileges. This would apparently amount to the recognition of Banking institutions as organs of the State, acting under a delegated authority. Could this system be introduced in England, it would be a complete revolution.

Banking in this country had a spontaneous origin and growth, stimulated by the wants of a community in which the progress of industry and enterprise outran the accumulation of capital, the power of which was, of course, multiplied by the action of credit. It was unfettered by any trammels except the usury laws, and an unwise limitation of the number of partners engaged in Banking firms.

The control and regulation of the circulating medium is surely a proper function of the Government. The necessities of the Exchequer appear first to have aroused statesmen to a reclamation of this right, previously in suspense. They first imposed a licence duty, and subsequently a stamp tax. Later on they vindicated the right of control by wisely forbidding the issue of Bank Notes of less value than £5. Finally, the Act of 1844 confined the privilege of issue to existing Banks, already in the enjoyment of it, under the condition of their issue never exceeding the amount of notes at that date current. This measure, and the bait held out of compensation for relinquishing their privilege, indicate unmistakably the aim of Sir Robert Peel's legislation—viz., the ultimate establishment of a single Bank of issue.

The Bank of England alone was placed under the obligation of providing security for the amount of her issues. Ought not this to have been required from all others whose promises to pay pass current in the hands of the public?

The principles by which a mixed circulation of coin and of paper should be regulated were propounded with much force and clearness in the writings of Lord Overstone. They were thoroughly apprehended by Sir Robert Peel; but his legislation was hampered by conflicting interests and national prejudices.

The local issues of notes are based on no metallic foundation, are not even covered by security; and the extension of the system of credit which they cause (as proved by the example of Lancashire) is quite unnecessary for the encouragement of industry. Moreover, their existence has frequently been found to cause an aggravation of financial difficulties.

The greater difficulties which Sir Robert Peel encountered in dealing with Scotland left the measure of 1845 extremely imperfect.

The Scotch Bank issues ought to stand on no different footing from that of the English issuing Banks, as long as they both continue to exist.

To bring this about there is ample scope for legislation. Waiving for the present the question of there being only one single Bank of issue, I think we may affirm that certain evils exist. To redress them, I hold—

1stly. That the issue of notes under £5 should be prohibited in other parts of the country as well as in England.

2ndly. That all issuing Banks should give security for their issues, as does the Bank of England.

3rdly. That if the Scotch Banks cannot be restricted to a fixed limit of issue, as are the English Banks, the gold which they are required to hold in their coffers, against the excess beyond the statutory limit, should be attached as security for the issue.

4thly. Any breach of the law in these respects should be visited, not by an inoperative fine, but by forfeiture of the privilege of issue.

I remain,

Dear Mr. Rathbone,

Yours faithfully,

WM. LANGTON.

*Ingatesone, 18th February, 1879.*



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Birmingham printed

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A LECTURE

ON

# THE CURRENCY,

DELIVERED IN THE

CITY HALL, GLASGOW,

BY

SIR A. ALISON, BART.,

ON

TUESDAY, MARCH 15, 1859.

SIR JOHN MAXWELL, BART.

IN THE CHAIR.

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*Reprinted from the "Glasgow Morning Journal" of March 16, 1859.*

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BIRMINGHAM :

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PRICE TWOPENCE.

THE FRIENDLY DISCOURSE OF THE CELEBRATED HISTORIAN

SIR ARCHIBALD ALISON

WITH THE CITIZENS OF GLASGOW, ON THE 15TH OF MARCH, 1850,

ON OUR

WICKED, DESTRUCTIVE, DISHONEST, TYRANNICAL  
CURRENCY LAWS.

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*Published by the "Glasgow Morning Journal" of March 16th, 1850.*

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The CHAIRMAN, in introducing Sir A. Alison to the meeting, passed a high eulogy upon him as one of the greatest friends to his country, and one of the ablest recorders of his countrymen's deeds both in peace and war.

Sir ARCHIBALD ALISON then presented himself, and was received with three rounds of loud cheering. After this had subsided, the learned Sheriff invited the parties standing in the passages to come forward and fill the two or three front seats which were empty. This caused rather a laughable scene, for not only did the parties referred to change their position, but many who wished to be further forward left their seats, and to their astonishment in many cases were unsuccessful in securing the exaltation they desired. After the hubbub had subsided, the lecturer said—I have responded with pleasure to the flattering invitation of the United Trades' Council of Glasgow to address them *on the all-important subject of the currency.* It is always agreeable to meet a vast assemblage like that I see before me, and especially when they are met together not for the purpose of party nor any thing that might occasion division, but animated by one feeling, and that feeling the desire to *elevate as much as possible the whole nation, to abate the amount of human suffering, and add to the amount of human happiness.* (Cheers.) I see with peculiar pleasure so large a proportion of the *working-classes* in this assembly, for the question you have done me the honour to ask me to address you upon is *emphatically the question of the people.* It is not a question of labour against capital, for labour without capital is like a steam engine without coal or fuel of any kind; but it is a question of labour, whether executed on the part of masters or workmen, of active industry either by the one or the other party, against realised capital which often seeks to make an unjust profit from both. (Cheers.) A question of this sort is always of great importance in every manufacturing and commercial community; and I assure you before I have done I will show it is one that has now assumed *great and colossal*

importance, in consequence of the great changes that have taken place in the establishment of a new system of trade, and in the annexation of our Indian Empire. I look upon this also as a time when the industrious classes of this and other great towns should acquire a distinct idea of the causes of suffering that exist, and where the alleviation of it is to be found; for they are, as I believe, upon the verge of receiving a large accession of political power—(cheers)—and they will soon have a preponderating influence in the future councils of their country. (Applause.) I may presume that the reason why you have done me the honour to request me to lecture to you upon this question is that you think because I have been called upon to study contemporary history I am acquainted with a great many facts which you would like to have laid before you in a short form. Impressed with that idea, I have determined to speak to you entirely extempore, and accordingly I have written nothing but a few figures; for I don't intend to address you as a professor his students, or a clergyman his congregation, or as a political leader: I shall converse with you as a friend does with his friends. (Cheers.)

Before I begin to speak of this question I shall tell what the question is not, and then I will tell you what it is. It is not, in the first place, a question of party; and I thank Heaven it is not. It is not a question which either the Tories or the Whigs, the Conservatives or the Radicals have taken up—it has never been used as a party cry, like Protection. The question that I stand here to plead for it is not a question of party, but a question that I know well is one of the deepest interest to money, and I need no other proof of that than the vast assemblage I see before me. It has never been a *cri de guerre*, and I will tell you the reason why it has never been a party question—because, the object we have in view is not to elevate one party above another—not to give one party the command of the country—but to elevate and improve, and bless all ranks and all parties—and it is what concerns no one particular branch of society. I will tell you it is not a question that by any possibility can be interesting to the feelings, but it is interesting in the last degree to those who can feel the force of intellect, whose understanding can be directed to logical questions; and while it is not possible to make it move the feelings, it is a question that depends upon figures and statistics. It is not a question, also, that is easy—it requires in the outset a certain amount of thought; and it is that circumstance that makes it difficult, so that it has never got hold of the great mass of the community, but who must grapple with it before this country comes into the position—as it should be—of having a happy and prosperous community.

Now this is a question upon which depends the liberty, the independence, the existence of the British empire. I tell you—and I stake my credit upon it—that if the present state of the currency laws continues, no man of wisdom, no man of valour, neither our soldiers, nor our brave sailors can prevent the decline of this country, and our subjugation by our neighbours. I say this question has to do with the liberty, the independence, and the existence of Great Britain, and I will demonstrate that to you before you are half an hour older. It is a question also upon which depends the happiness, the remuneration of the industry, and the prosperity of every human being in the country. (Cheers.) I need not say that a question

of that character is of universal interest; and although I cannot say I will make it move your feelings, yet the facts that I will state I hope will sink into your minds, and awake a train of thought in your bosoms which shall conspire with other things to bring society in this country to a uniform aspect of prosperity, instead of being marked by occasional times of prosperity, which are rendered great contrasts with the gloom and gold with which they are surrounded. (Applause.)

Now, the first observation that I will make is, that if we examine the state of the country as it has been for the last forty years, all parties must confess that there is something essentially wrong in our social position. There is something in the profits of labour, the talents, the perseverance, the energy, and industry of this vast community which gives us vast national power, and which should lead us to look for a vast unbroken dream of prosperity. There is something that makes an impellment between the cause of national strength and the cause of national prosperity; and what we are entitled to expect should follow; and my object is to show what that cause is and how it is to be removed. Now, since the year 1810—when the great change in our monetary laws took place—there has been a double set of facts introduced apparently inconsistent with each other, but which, nevertheless, are perfectly established; and it is for us to see how these opposite facts are to be reconciled. In the first place, I will give you the figures of the exports and imports, the population and tonnage of Great Britain in 1819, and the preceding and succeeding year, and you will see the vast and prodigious increase that has taken place, the increase showing the greatest amount of national strength and social prosperity. In 1818 our exports were £15,180,000, and the imports £35,815,000; in 1819 our exports were £34,252,000—our imports were £29,680,620; in 1820 our exports were £35,569,000, and imports £31,515,000. Then the tonnage of the shipping in 1818 was 2,674,000 tons, in 1819 it was 2,666,000, and in 1820 it was 2,500,000. The population of the empire in 1819 was as near as possible nineteen millions. That was the state of the empire, then, in 1819, when cash payments were resumed. During the last four years the following was the state of the exports and imports of this country:—In 1854 the exports were £97,185,000; imports, £152,380,000; and shipping tonnage 7,899,000. In 1855 the exports were £95,688,000; imports, £143,542,000; shipping, 7,018,000. In 1856 the exports amounted to £115,826,000; imports, £172,544,000; shipping tonnage, 8,241,661. In 1857 the exports were £122,066,000; imports, £187,844,000; shipping tonnage, 9,386,000. Now, according to these figures—and they are taken from the Parliamentary documents, which is sufficient proof of their correctness—whilst an increase of the population to the extent of a half had taken place, the exports of the country had more than trebled, and the imports had increased more than fivefold, and its shipping threefold, every one would see that, and take it as an indication of the greatest prosperity that had ever taken place in the annals of any country. So far so well. Now he would tell them whether the national strength and national power had kept pace with this vast increase of national resources. The figures he was about to adduce were most astonishing to himself, and he could not have believed them if they had not been given on the best authority—they were given by Sir John

Pakington, the First Lord of the Admiralty, in regard to the state of the navy. He would first adduce figures with regard to the national strength during the last 40 years, and then state what the social prosperity of the country had been. In the year 1760 we had 113 sail of the line; in 1783, during the American war, we had 126; in 1799, during the French war, we had 120; in 1809, 113—all in commission; in 1812 we had 245 ships of the line in the harbours of the country, and 272 frigates—in all a thousand vessels bearing the Royal flag; whilst in 1812 the French had 113 ships of the line and 72 frigates. In 1820 the British had 146 ships of the line and 164 frigates; the French 59 ships and 99 frigates. In 1840 we had 89 ships and 180 frigates; the French 44 ships and 59 frigates. In 1850 we had 86 ships and 104 frigates; whilst the French had 45 ships and 56 frigates. And in July, 1858, we had only 29 sail of the line and 87 frigates; whilst the French had 29 ships and 76 frigates; and at the end of 1859 this country would only have 36 sail of the line. Now there was a picture of a nation adding a half to its population whilst it was letting its navy go down! and now the French had got a larger fleet than this country, and we had not the ability to defend our shores. That surely proved that there was something wrong. But was the decrease of the navy owing to the increase of the army? They would see by statistics given by Mr. Sidney Herbert. In 1828 the home service numbered 53,934 men, and 25,559 in India. In 1836 there were 43,432 men on home service, and 19,720 in India. In 1846 there were 56,286 on home service, and 29,182 in India. In 1856, 64,541 were on service at home, and 29,619 in India, where there were 120,000 Sepoys on the edge of revolt, with a population of 180 millions. Now, he would take them a little further, and on the authority of Lord Hardinge, who had informed him himself, that when he came to the head of the army in 1852, he could not have got more, after the sea ports and other garrison towns were supplied, than 10,000 men and only 40 guns to defend London, and as many of the guns had not been repaired since Waterloo, he believed that most of them would have gone to pieces if they had been brought on a clay field. (Laughter and cheers.) Now they saw that this great country, with a population of more than 27 millions, with an annual shipping tonnage of 9 millions, with £187,000,000 imports, and £122,000,000 exports per annum, has sunk down to the position of Bavaria as a military power, and Denmark as a naval power. Was the reason for this because our resources were being applied to reduce national debt? Why, after the battle of Waterloo it was £816,000,000; now it was £803,000,000; and it was 5 millions larger when the Crimean war was begun than in 1832, when the Reform Bill was passed. Did that not show them there was something wrong?

Now, turn to another thing, which, taken as an indication of national prosperity, was of still more importance—he meant the social wellbeing, particularly of the working classes. There were three tests to be applied to this matter—the amount of pauperism, the amount of emigration, and the amount of crime. These he would apply to the condition of this country. In 1846 the paupers relieved in England amount to 1,332,080, of whom 382,417 were able-bodied men; in 1847 there were 1,721,350 relieved, of whom 562,355 were able-bodied; in 1848 there were

1,626,201 relieved, 666,338 being able-bodied men. They all knew that a great relief had been brought to this country by the mines of California and Australia, and also the Indian War; but still, in 1854, there were 1,069,578 paupers in Great Britain and Ireland; in 1855 there were 1,017,117; in 1856 there were 1,030,737. Now, these were paupers; and he asked them, was that the position which this country should occupy which had increased so largely in wealth?

Now, look to the state of emigration. In 1821 there were 13,349 persons left the shores of Britain and Ireland. In 1831, 83,160 left; in 1841, 118,192; in 1851 there were 335,966; and, in 1852, 368,800, the highest number in any year that emigrated from these shores. During the last 12 years 2,750,000 subjects of Great Britain and Ireland had left this country, and for the first time during the last four centuries has the increase in population in these islands stopped. Statistics proved, also, that during a period when the population of the country had nearly doubled itself, crime had increased nearly fivefold, and that was a circumstance perhaps unparalleled in the history of the world. The country had made a most extraordinary advance in wealth, industry, and population, and yet it had arrived at a deplorable state of prostration of national strength, and had descended from a first-rate to a third-rate Power at the same time that emigration and population had greatly increased.

Now, the facts which he had mentioned were well worthy of the most serious consideration, for they would appear to indicate that there was something rotten in the state of Denmark. He felt bound to state what he conceived to be the cause of so curious a state of things, and afterwards he would state a remedy. (Hear, hear.) *Well, then, the cause of all this was the erroneous state of the currency.* It might be said that in describing the currency as the cause of all this, he was assigning a trifling cause for events apparently unexplainable, but let them go back and see what the currency had done in other days, and in other countries, and it would be seen that in more than one case the currency had exercised a most painful effect.

It might not perhaps be generally known, but it was first pointed out by Lord Melbourne, an accomplished classical scholar, that the contest between Rome and Carthage was decided neither by the ability of Scipio nor of Hannibal to the same extent as it was by the establishment of a paper currency. In Rome notes were issued bearing interest, but not payable in cash till after the war. In fact, it was curious to observe that the same operation was performed centuries before the birth of Christ which Pitt subsequently adopted. The great impulse given to trade and industry in the 16th century was owing to the discovery of America, and the subsequent discovery of the mines in Mexico and Peru, by which such a mass of metal was set in currency; and with the increase in price everything had rose to nearly double, and with the increase in price everything rose, and with it the wages of labour and the produce of industry—and that was the real history of the progress of commerce during the 16th century. In 1793 this country was engaged in a war with France. France, however, established a paper currency, which enabled her to fit out the immense armies with which she fought against and overcame the whole of Continental Europe. In the year 1797 Mr. Pitt framed an act suspending cash payments; and the consequent increase in the issue of notes

enabled this country to carry on the war with France; and, subsequently, the allies generally took advantage of the hint, and, in 1815, no supplies of gold were sent to the army; but paper notes were issued, on the guarantee of Russia, Austria, and Prussia; and with these notes all stores were paid for—the troops were paid, and they could be passed without depreciation from the wall of China to the gates of Paris. (Hear, hear.) So powerful, indeed, was the effect of a paper currency, that it enabled Hungary, a small State, by issuing £14,000,000 sterling of paper currency, to levy troops and maintain, not only an equal combat with powerful Austria, but a combat in which she would have been successful, and the result of which, but for the interference of Russia, would have been to render Hungary independent. Such were some of the effects which have been produced by a paper currency, and no doubt it adoption had saved many nations from ruin. It was not altogether, however, on one side, for if there was safety on the one hand, there was equal danger on the other, when a paper currency was issued without restraint. A paper currency was an elixir of life; but it was an elixir which, taken in undue quantities, would destroy life as readily as it would save if properly taken. Of that there was one memorable example in the case of France. During the Revolution assignats were issued which every one was bound to take as cash. Now, when that system commenced, the currency of France was about £60,000,000, but they continued issuing paper until it arrived at the enormous sum of £750,000,000, sterling, and the result of such an issue might have easily been anticipated. Its effect naturally was to alter prices so much that in a short time it was common to say that a breakfast for six persons, for which a louis was paid, cost 1200 louis in assignats. The result was that the immense debt could not be discharged; and a few persons who could manage to steal or otherwise get possessed of a few sovereigns, could have purchased an enormous quantity of the paper currency. In fact, the whole capital of France was virtually ruined. Well, then, what was the ultimate result? Why it was that France is at the present moment under a despotism as injurious as that of Louis the Fourteenth, and that mainly owing to the effects of the circumstances to which he had referred. In Great Britain effects so disastrous have not been produced, but still an extension of the paper currency without proper care and due restriction had led to important results. In 1815 our paper currency amounted to £60,000,000, which was a much larger sum than was required, and nearly double what it was at present, and the consequence was that prices rose until they were three times as high as they had been in 1797, and it became necessary for the nation to borrow upwards of £5,000,000; whereas, if there had been no rise of prices, a loan of £3,000,000 would have been sufficient. Persons borrowed money upon the belief that prices would never fall, both landed proprietors and merchants, and if they had remained what they were, £5,000,000 of private debts would not have been incurred. The ultimate result was, that all the riches became accumulated in the hands of the money-lenders.

He must request their close attention to what he was going to advert to next, for he was going to advert to the very "ponasinorum" which so many found impossible to get over, and from which he was sure ninety-nine persons out of every hundred would be glad to turn away, and say

they did not understand it; and it thus made the very point upon which the future fortune and prosperity of the country depends. The proposition which he had to lay before them was one which was at the whole root of the system. It was a general proposition that everything plentiful became cheap; and money was an article of commerce just as bread was, and when it became plentiful it became cheap; but when money became cheap everything else became dear. If gold became plentiful prices rose; but when the currency was contracted, and the gold went away, prices immediately fell. If, then, in the absence of gold, there was an increased paper currency, the effect would be to keep up prices—and speculation would rise, profits would be made, and the wages of industry would increase; but if the currency be taken away, down went the prices, and also the profits. The present Currency Act was passed in 1844, and extended to Scotland in the following year. By that Act it was rendered incumbent on the Bank of England to receive all the gold brought to it by any person, or from any part of the world, the object being to make the Bank of England the great emporium of gold throughout the world, and the price was fixed at £3 17s. 9½d. an ounce; and at the same time, the amount of notes which the Bank could issue without having sovereigns to cover them was settled. Under such a system the currency might be said to be almost entirely dependent upon the retention of gold; because the Bank of England was obliged to retain £7,000,000, or £8,000,000, in gold, which it could not issue under any circumstances; and consequently the Bank of England was compelled to clap on the screw and curtail its issue whenever the gold in her coffers descended; because, when they found the gold going down, they knew that they were coming to the limit, and when they came down to the £8,000,000, they would be positively bankrupt. In that case other banks follow the example and all put on the screw together, as was done in 1857.

He would now advert to the crises which had taken place in this country, and show that all of them could be explained by reference to the erroneous state of the law. The first crisis occurred in 1819, then followed the resumption of cash payments, which had a great effect on the imports and exports. In the year before the bill passed, 1818, the exports amounted to £45,180,000, and the imports to £35,845,000; in 1819 the exports were £34,252,000, and the imports, £29,651,620, so that both the exports and the imports fell off £10,000,000 the moment the bill passed. Now, what could be the reason for that? He traced it to the operation of the Act of 1819. He then referred to the crisis of 1823, caused by South American speculation, when twelve millions of sovereigns were drained from this country to carry it on, so that the gold was nearly all drained from the Bank of England when the directors of that bank had to apply to Government to suspend cash payments, and when, by the happy thought of a clerk in the bank, who remembered that there was a box lying in a room containing two millions of old notes, which were issued to the public, this country was saved from bankruptcy. He next adverted to the crisis of 1835-36, brought about by American political intrigue, when a cry against the banks was got up, and when President General Jackson and the Legislative Houses passed a decree to the effect that no payments of taxes or for town lands should be received except in gold. That induced a crash, which reduced the imports of America from this country, which in 1836

had been £12,000,000, down to £4,000,000, the effect of which was an immense drain of gold from this country, to meet this demand of General Jackson, of not less than £9,000,000, or £10,000,000. That had a most serious effect upon the Bank of England; and to save this country again from bankruptcy we had to get a loan of £2,000,000 from the Bank of France. Then came on an amount of suffering which lasted four years, and then another start was made, and things went on until 1845-46, when there was another halt, and the whole system of the country was changed by the introduction of Free Trade. Now, that was a most important step in reference to the currency; and he contended that that change in our policy in regard to trade must be followed by an alteration in the currency laws, or a continual recurrence of disorders like that of 1848. The state of matters in that year they were well acquainted with. The Irish famine was in 1846, when a great importation of grain took place, the duties being taken off. Previously, the greatest amount of grain that had been brought into this country amounted to 2,500,000 quarters; but in 1847 there were 10,000,000 entered. That grain had to be paid for by something, and it was gold and silver that was given away, so that in 1847, £33,000,000 sterling went out of the country in consequence of the foreign trade. He then showed the effect of that upon the commerce of this country. In 1847, the exports amounted to £58,840,000, the imports, £90,921,000; in 1848, exports, £52,849,000, imports, £93,547,000; in 1849, exports, £63,596,000, and imports, £105,874,000.

Now what was the effect of the great increase? and he was not complaining of Free Trade, which he took as a settled, fixed policy; but he asked that in this being fixed, that the currency laws be modified to a certain degree or the country was ruined. In 1848 there was a balance of 40 millions of pounds of imports over exports, and that balance was paid in gold and silver. The paupers in 1847 numbered 1,21,350; and in 1851 the emigrants who left our shores were 335,966 in number—showing clearly by the great abstraction of the precious metals an immense amount of misery had been entailed upon the people of this Kingdom. (Hear, hear.) He need not tell them of the effect of the gold discoveries in California and Australia before 1852; the whole gold annually introduced into this country from the whole world was only between £5,000,000 and £9,000,000; but it had been raised to £36,000,000. (Cheers.) In it was contained the history of the resurrection of England, as showing her resources in the Crimean war, and by the suppression of the Indian revolt. That £30,000,000 had been added to the country's resources by Providence pointing out the mines of California and Australia, it had been gained not by the wisdom of man but by the goodness of God. (Cheers.) That was what had occasioned the immense imports and exports, and which had rendered it possible for the taxation of the country to be raised from £55,000,000 to £75,000,000, just as it enabled the country to fit out the army which stemmed the torrent of barbarian ambition, and asserted the dominion of Britain upon Indian soil. (Hear, hear.) The very effect, however, of that great prosperity in consequence of the gold discoveries had been to open out another source of evil, which gave rise to the crisis of 1857. Under the existing currency, directly gold began to leave the country credit began to be shaken; but when prosperity fell in there was a great

rise in wages and a great increase in consumption, especially among the working classes, as was the case in 1845 and 1846 during the railway mania. The effect of the present law was that years of prosperity should be followed by periods of depression on account of that very great increase of consumption. It appeared that year after year the proportion of the imports of the country to its exports were increasing, and money was sent out of the country. Now there was no great harm in sending money out of the country and getting grain for it, but what he complained of was the present system of currency caused the credit of every bank, the wages of labour, and the profits of trade dependent upon the detention of gold by the Bank of England, and at the same time a system of commerce was established which rendered that detention impossible. The axiom was undeniable that a rich country imported more than a poor country, because the consumption was naturally greater; and at present the imports from India amounted to twenty-three millions, as against twelve millions of exports to India; and from the unsettled state of the country and from other causes, there was little probability for some time of these exports increasing.

What they had to consider now was this. They must look forward to a constant excess of imports over exports occasioning an unusual drain, and how were they to reconcile that with the principle that, as gold was sent out of the country, the circulation of notes would be restricted. Another effect of the Act of 1844 had been greatly to vary the rate of interest. For a hundred years before that Act, with an exception in 1857, interest had never varied much from 3 per cent.; but since then it had varied from 2 to 10 per cent., producing in many individual cases great hardship. He did not blame the bank for that; for, under the present law, they were obliged to raise the rate of discount, or else they would become bankrupt. It had been often said that the evils of those crises arose from undue speculation, and undue extension of credit; but the fact of the matter was, that it was the state of the law itself which gave rise to undue speculation. When the Bank of England lowered the rate of discount other banks did the same, and the result was that not only was the currency curtailed when it should be extended, but speculation was encouraged. As regarded the directors of the Western Bank, he did not blame them—neither did he defend them. They had acted recklessly and foolishly, but that recklessness had been forced upon them by the monetary law of England; and for the honour of Scotland he said, that the old Scotch law had enabled them to redeem their honour, for they had paid their debt in full. (Hear, hear.) It was not the weight of taxation and of the national debt which had any effect upon these crises, for at periods in her history when the country had never been more heavily taxed, she had never been in a more prosperous condition. If he had been of opinion that no remedy existed for such a state of things; if he believed that it was not possible to prevent the recurrence of these crises, he would not have been there that evening, but he would have been content to let matters take their course: but such was by no means his opinion, for he thought that he himself could suggest a remedy. (Hear, hear.) The principle of Sir R. Peel was to diminish the number of the notes as the gold itself went down. Now, his principle was the exact converse. (Hear, hear.) He would say, as the gold diminishes increase the number of notes. (Hear, hear.) From

1810 to 1815 there was hardly a shilling in the country, and yet there was no monetary crises, and that was simply because there was a plentiful issue of notes. In the year 1848, in consequence of the revolution in Paris, there was a dreadful monetary crisis, but the Bank of France had the wisdom to issue notes to the extent of £18,000,000 sterling, and the consequence was that credit was restored, and 120,000 men who would have been thrown out of work were again employed, and before the end of the year the gold all came back again. At the same time he was of opinion that some restriction was absolutely necessary, which he should place at 50 per cent. lower than that of Sir R. Peel. Sir R. Peel fixed upon 14 millions as the amount beyond which the bank should not issue notes exceeding the gold in her coffers; but considering the increase of population, he would fix it at 21 millions. There would be no objection to allowing all banks to issue notes provided they deposited in the Bank of England Government securities sufficient to meet the whole amount issued. (Hear, hear.) He would also have a regulation that when the gold sunk below a certain sum, say 15 millions, then, that inconvertible notes bearing interest should be issued, which should be taken up when the gold came in again. (Hear, hear.)

Before sitting down he wished to impress upon workmen that to strike was a most frightful mistake. It was not correct to say that no strike had ever been successful; but those only had been successful which had taken place during a rising market. No doubt a workman was entitled to ask for an increase of his wages if the produce of his labour was rising; but the great error generally committed is, to think that wages can be prevented from falling in time of adversity. When the produce came down, an employer would very likely not be able to afford the same rate of wages, or he certainly would do so rather than part with old hands. As an instance of the disadvantage to the workmen themselves of a strike, he might mention that the strike of 1842 cost them in wages £500,000; while in 1857 the strike in Lanarkshire, Ayrshire, and Stirlingshire had cost £700,000; and the total loss of the strikes of 1825, 1838, 1847, and 1857, had been 5 millions. He was not speaking to them in the interest of the masters. He cared nothing about the masters; but it was entirely for their own sake, and he would advise them, if they combined at all, to combine not against their masters, but against the law which compelled their masters to reduce their wages. (Hear, hear.) The learned Sheriff in conclusion, thanked the audience for the attention with which they had listened to him, and resumed his seat amidst loud and protracted cheering.

A vote of thanks to Sir A. Alison was cordially given, and shortly afterwards the meeting separated.

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Chambers, George H.

Everybody's question; or,  
A few words on banking...

London

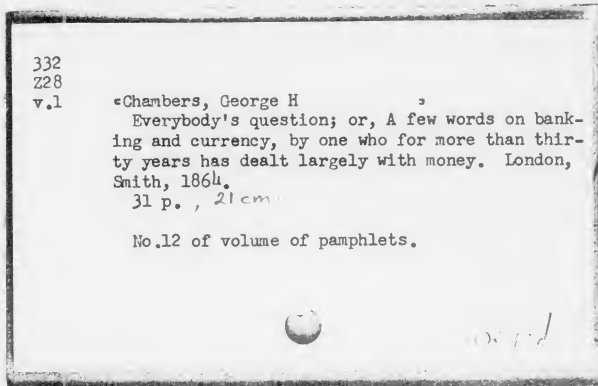
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# EVERYBODY'S QUESTION;

OR A FEW WORDS ON

## BANKING AND CURRENCY.

BY ONE WHO FOR MORE THAN THIRTY YEARS HAS  
DEALT LARGELY WITH MONEY.

*Chambers, R. H.*

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LONDON:

SMITH, ELDER AND CO., 65, CORNHILL.

1864.

## EVERYBODY'S QUESTION,

ETC. ETC.

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THE attention which has been directed to the subject during the last few months, and the expression of opinion thereby elicited, suggest the probability of a reconsideration of our laws in relation to Banking and Currency during the ensuing Session of Parliament; and it is hoped that the following remarks, based on the observation and practice of rather a long period, may not be altogether without value.

It is not contemplated to propose a specific plan as a cure for all monetary ills. The question, "What, then, do you recommend?" is not answered in a few simple words, when the subject is in its very nature abstruse, and involves problems which can only be properly solved by the deepest thought. When, therefore, the supporters of the existing law say, "If any of the railers at the Act would state precisely the clauses they would substitute it might be possible to deal with them, because a reference to the most

elementary principles would enable that task to be effected in half a dozen lines," it must not be concluded that those who thus write are oracles of wisdom, but that they have not minds sufficiently powerful to grasp the comprehensiveness of this most important subject. It is at once admitted that, from the inability of the writer to withdraw at present from the active operations of commerce, in order to work out ideas to absolute conclusions, it is possible that some of the opinions now entertained may be hereafter modified; but if certain facts be brought prominently into notice, and some of the fallacies so widely prevalent be dispelled, the way will be partly cleared for those whose province it is to act for the national interests.

The bold title to this little work has not been chosen without much reflection, but when once it is realized that 9 per cent. as the minimum rate of discount at the Bank of England means days and nights of torture and anxiety to many an honest trader, and that it also means starvation or the work-house for many an industrious workman, it will be seen that the appellation is not too aspiring, and that it behoves every one to consider whether such lamentable results flow from natural causes, which cannot be interfered with, except at the cost of producing greater evil; or whether they result from mischievous legislation, which should be corrected

with the least possible delay. Those who suffer thus painfully are at least as much entitled to be considered as those who derive large profits from the existing system, and thus regard with complacency, as "a corrective process," the consequences of the most highly protective statute which has ever been embodied in our laws. It will be for the reader to determine whether enough evidence is produced to justify the term of a protective statute; but it shall be proved that its supporters are precluded by their own evidence from questioning this title.

Before proceeding further it is necessary to arrive at a clear understanding as to the meaning of some of the words employed; for it would be amusing, were the subject less serious in its nature and consequences, to notice the confusion of ideas which is but too common. One illustration, however, will suffice. The following passage is extracted from an elaborate article in one of our first commercial publications:—  
 "Our circulation being wholly based upon a gold currency, and that currency having suffered a decline at the very time when an important increase in it became necessary to meet the great improvement in our foreign and colonial trade, both inward and outward, the result has been great stringency in the value of capital in all quarters."

First, let it be observed that a distinction appears to be drawn between circulation and currency,

although, technically considered, both words ought to mean the same thing; and with this is coupled the obvious error of "being wholly based upon gold," for the last Bank return shows, in the issue department—notes issued, 27,221,130*l.*; bullion, 12,571,130*l.*

Then, as to the last line: If currency be our only "capital," that "there has been great stringency in its value" is true; but if material wealth be capital, then the remark is obviously untrue, for property of all kinds (money excepted) has been depreciated in value. The causes of this confusion of ideas will become apparent as we proceed, and we will now ask, What is currency? This question has been put to a thousand persons, without eliciting a satisfactory reply; and yet the true answer is contained in a few words. Some have said, "bank notes are currency;" "gold and silver are currency;" "checks are currency;" "anything that passes from hand to hand;" "in Liverpool checks and bills of exchange are almost the only currency." Let it not be supposed that the imagination is being drawn upon for these replies; they are just as they have been made by men of high position and wide experience, and they have been noted down from time to time. The true answer, and the only true answer, is, "currency is that which a man must, not may, but must, take from another at a fixed value, in discharge of an obligation to pay."

Nothing else, in the strict meaning of the word, is currency, and it follows, that "currency" and "legal tender" are the only terms properly interchangeable; even money—*i.e.*, coin—is only partially "currency," for silver is not legal tender beyond the amount of forty shillings; Bank of England notes are, however, currency, because they have been constituted "legal tender" by Act of Parliament. Simple as the explanation becomes when once perceived, it is, nevertheless, worthy of most serious attention; for, until the conclusions to which it leads are thoroughly established in the mind, no true progress can be made; and the first and most important conclusion is, that whether it be based upon bullion, or upon the public credit, or both, or whatever be its basis, currency must be artificial: its value is determined by law, and is not, in any degree, the result of natural or unalterable causes.

With this understanding of the meaning of the word currency, let us consider the laws respecting it now in force, together with their avowed object and operation.

The theory of our legislation on the subject is, that all engagements shall, if required, be met in gold; "the maintenance of specie payments," "the convertibility of the bank-note," "the charm in the bit of metal"—all these are expressions of the same idea; but the questions whether it would be possible,

and, if possible, whether it would be wise, to rely on a currency based only upon the precious metals, need not for the moment be discussed, inasmuch as the principle is departed from at the very threshold of our existing legislation; a currency in aid, as it may be correctly termed, having been legalized, for which there is no foundation whatever in bullion. The amount of this currency in aid was originally fixed at 14,000,000*l.*, with provision for its increase under certain circumstances, which have partially occurred, so that the present amount is 14,650,000*l.* The alleged reason for fixing on the former sum was, that it had been found by experience that the Bank of England notes in the hands of the public had not, under any circumstances, been less than 14,000,000*l.*, therefore, it might be assumed, keeping the convertibility of the note in view, that this sum, against securities including the amount of the dead weight, or debt due by the Government to the Bank of England, might be safely issued by the Bank in addition to the value of the bullion in its possession. This extra currency was accordingly authorized by the Bank Act of 1844, coupled with an obligation on the Bank to buy, at the price of 3*l.* 17*s.* 9*d.* per oz., all gold bullion that may be offered; but, on the other hand, it must find sovereigns for all the notes which may be brought in for payment, and, consequently, the Bank is liable by law to sell about 14,000,000*l.*

worth more gold than it possesses—not at the price which the gold may be worth at the time, but at the Mint price of 3*l.* 17*s.* 10½*d.* per oz.

It would be difficult to find words too strong for the condemnation of such a scheme as this, for let it be most carefully observed, that *the improbability of being called upon to meet it, not the ability to do so, is made the basis of the extent of the engagement.*

But, in reply to this objection to the Act of 1844, it has been said, (and nothing can show more clearly how little the true nature of the subject is appreciated,) that, in banking operations, it is not necessary to keep in reserve more ready money than has been proved by experience to be sufficient to meet all calls. The answer is, that the operations of a banker and legislation on the currency ought to be perfectly distinct; the former may be open to the exercise of discretion, the latter should be governed by the most rigid adherence to sound principle, and when this is superseded by expediency, mischief must ensue. Nor can the supporters of the Act escape from this dilemma; either the notes issued should have been limited to the amount of bullion, or, if 14,000,000*l.* in addition to the bullion currency were necessary, or desirable, or justifiable for the population and trade of 1844, an increase should now be made to meet the wants of the population and trade of the present period.

It may be well to consider now the avowed objects of the last and most important Act, that of 1844, affecting the currency, and prominent among these were the maintenance of the sovereign at an equal value, the repression of undue speculation, and the prevention of those monetary panics by which the Country had been so much disgraced, all which objects were to be attained by the operation of the restriction clause. Well was it said by those whose commercial and monetary experience enabled them to detect the fallacies in which the subject had been involved, that in every respect there would be disappointment; that to attempt to maintain an arbitrary price for gold in the face of the wants of other nations, would entail a loss vastly exceeding any possible advantage to be derived from it; that the attempts to check speculation by tampering with the currency would inevitably fail; but although powerless for good in this respect, the Act was powerful for evil, and instead of preventing would increase panic, and that if any severe crisis arose, the abandonment of the restriction clause would be inevitable; every word thus spoken in condemnation of the Act has been most completely justified. The absurdities into which we have fallen in our adherence to the Act are perhaps more strikingly exhibited in our dealings with other nations than in any other way. Obviously if the legislation on which our system of currency is based were sound, the currency would

be a part of the capital of the country, but the principle being unsound, not only is our currency regarded as something different from capital, but as positively antagonistic to it; and it is spoken of as a good thing to depreciate capital in order to increase currency. There is not the slightest exaggeration in this statement; over and over again it has been said, so frequently that it would be idle to quote particular instances, that it is desirable to bring down the prices of goods in order that the Foreigner may take them instead of gold. Now this involves two propositions, and it would be difficult to say which is the more posterous. The first is, that the Foreigner's demand for our productions is not to be regulated by his own wants, but by our want of something of a different nature; the other is that to depreciate our material wealth is the best mode of increasing our prosperity. Unfortunately in too many instances the intentions of the authors of the Act have, in this respect, been fulfilled; goods have been unduly depressed in price, but does it follow that the equal value of the sovereign has thereby been maintained? The very reverse is the case. The real value of the sovereign in relation to what can be obtained in exchange for it, has been altered to the extent of even 50 per cent. in some instances; but were the price of gold not unnaturally influenced by our legislation, so great is the power of the wealth of this country that we could attract here

all the gold we might require without any alteration in its value beyond a trifling per-centage. We cannot, however, do this so long as the Bank of England is bound by law to sell again some 14,000,000*l.* worth more gold than it possesses at the fixed price of 3*l.* 17*s.* 10½*d.* per oz.

That the Act has been powerless to prevent speculation requires no demonstration, but again it may be advantageous to consider the meaning of the word used. All trade is, to a certain extent, speculation. The farmer, the manufacturer, the merchant, all speculate on a demand to take off the commodities which they respectively provide; but it would be affectation to pretend that these are the speculators whose operations are regarded with disapproval. The speculators whom it is suggested should be kept in check are those persons who, having no ordinary business in markets, merely buy upon the chance of realizing some difference in price; the prevalent idea is condemnatory of such persons, but perhaps through insufficient reflection; it sometimes happens that the regular dealers in markets are so engrossed by the considerations of the moment that they do not look sufficiently ahead, and till speculators come in to operate, their attention is not called to the probability of deficient supplies. A benefit, not an injury, is thus sometimes conferred upon the general community by speculative operations; but, further, it should surely be open to every man to

buy what he thinks right, either land, houses, goods, or consols, provided he pays for them with his own money; the evil arises when speculation is carried on with the money of other people; but in such cases it is not so much speculation as undue credit which is in fault, and this undue credit will form the subject of some subsequent observations.

As a matter of experience it may be confidently stated that no rise in the rate of interest for money will check speculation in any article, so long as the opinion is maintained that the supply will not be equal to the demand, and the reason is obvious; because, when an advance, more or less speedy, of ten, fifteen, or even more per cent. in the value of the principal is confidently looked for, a difference in the interest for the time is comparatively unimportant; and further, no speculations proceed very far unless taken up by the public at large.

"If the public do not come in to buy there will be no great go in the market," is a remark which has been made a thousand times; and it will, no doubt, be deemed a sufficient apology for introducing slang to say, that it is thought better to repeat the words actually used, than to construct a more elegant phraseology. Two examples will be sufficient: the sugar speculation in 1855; and a previous speculation in another commodity which cannot be named, or the remarks upon it would be of a personal character.

With regard to sugar, for some years after the emancipation of our own slaves in 1834, the produce of slave countries was excluded from our markets; in 1854 the distinction ceased, and the consequent competition led to very low prices at the commencement of 1855. As the year advanced adverse intelligence was received from certain places of growth, and the opinion became general throughout the country that a great scarcity was imminent; prices advanced until the sugar, worth 29s. 6d. per cwt. in January, was sold at 63s. per cwt. in November. The rate of interest had been raised at the Bank from  $3\frac{1}{2}$  per cent. in June to 5 per cent. in September, and to 6 and 7 per cent. in October; but so far from checking the speculation, the advance in price was more rapid between October and November than at any former period. Deliveries had been on a very large scale, and it was concluded, not unreasonably although erroneously, that consumption had been greatly stimulated by low prices; in November it became known that 11,000 tons of shipping had been chartered to bring sugar from one French port alone, the stock at which, according to official returns, was 3,000 tons only; but the larger quantity speedily arrived, the high price having induced sales from private stores; from other quarters supplies were also coming forward. A collapse of the market was instantaneous; it had been said, with reference to the rapidly declining stock, that "you

could not eat your cake and have it," but it was found that the cake had been bought, not eaten, the public having been the great speculators; those who usually supplied themselves with 7 lb. having bought 28 lb., and those who usually bought 28 lb. having laid in a bag or a barrel, and for several months the trade was almost at a stand. But although a high rate of interest had not checked speculation while the expectation of scarcity prevailed, it aggravated the pressure when reaction set in, and prices were thus forced down several shillings per cwt. below the level at which they stood when business was generally resumed. The other article alluded to is one which enters largely into several manufactures, and the great advance in price, resulting from the expectation of short supplies, attracted attention in the Bank parlour; two, certainly, and perhaps three Bank directors were holders, and at the same time that it was noticed that bills of a certain class were generally "thrown out," it was also discovered that extensive sales had been effected privately; the idea was rapidly taken up that some better information as to supplies had been obtained, and the market was paralyzed. The notion that "an inflation of prices," as it is termed, can be maintained by speculation is only worthy of a past age. Even in the days of high protective duties and stringent Navigation Laws the strongest combinations for such a purpose were almost certain to result in failure, of

which the great Tallow speculation was a notorious example ; but now that our ports are freely open to supplies from all quarters, the natural law may be safely left to take its own course ; for, mark the practical working of interference by withholding, or increasing the cost of the usual Banking facilities, as in the case of the article above alluded to ; our competitors for it being wiser, and rightly concluding that if prices be forced up too high, increased importations will speedily bring them down again ; if, on the other hand, the expectations of scarcity be not unfounded, it will be advantageous to be well in stock, and the expected deficiency from one quarter being increased by comparative failure in another, we should have to give for manufactured goods more than we could have produced them at ourselves, sustaining the double injury of difference in price, and loss of profitable employment. It has been thought expedient to dwell at length on these cases of actual experience, in order to dispel some of the misconceptions which are unfortunately too popular, and which induce an approval of the Act of 1844 by those who have not reflected sufficiently on its operation.

But its most signal failure has been with reference to the restrictive clause, the impossibility of maintaining which, in times of real difficulty, in connection with the other conditions of our currency laws, was distinctly foretold. In 1847 permission

was granted to disregard the restriction, and so artificial were the difficulties under which the country had been labouring, that not only was it unnecessary to act on this permission, but money which, on the morning of the day on which it was granted, could scarcely be had at 10 per cent., could not be lent on the following morning at 2 per cent. Again in 1857 was the principle of the bill abandoned, but on this occasion the hesitation to act was nearly fatal ; it cannot be too widely known that on the morning of the day on which for the second time permission was given to ignore the restriction clause, a draft for about 500,000*l.* would have stopped the Bank of England, and that not only the leading joint-stock banks but some private firms might, if they pleased, have passed such a draft. There is no exaggeration or misrepresentation in this statement ; it is in every respect strictly and literally true.

The excellence of the bill is now being extolled by its supporters, because it has not been again set at naught ; but the true cause why the necessity for doing so has not at the present crisis been imperative, is kept out of view. It is possible to play tricks with a strong man which could not be endured by one of weak constitution. Last year, through the blessing of Divine Providence, there was so abundant a harvest that the wealth of the country was more added to than if we had doubled every ounce of bullion in the

Bank of England; again this year have our fields, on the whole, been fairly productive. Nor is this all; our people are industrious and provident beyond all precedent. It was stated recently by an eminent banker of one of the Midland Counties, that many of the artisans in his district now have their two or three sovereigns in reserve, and to such men thirty years ago gold was almost a thing unknown. Had the case been otherwise, had there been any pressure for food, again must the Act have yielded to it; but although a high rate of interest has been borne, it must not therefore be concluded that no mischief has resulted from it; many a trader on making up his books this year will find his profits absorbed by the extra interest he has had to pay; and it is to be feared that the sacrifice of capital, which in many cases has been inevitable, has sown the seeds of failures to be declared hereafter.

With reference to these remarks it has been asked, "Do you, then, disapprove of the separation of the issue and banking departments, and would you allow the Bank to issue an unlimited amount of paper money?" The answer is that the separation of the two departments of the Bank was perfectly right, but it is only one step in the path which must be followed to the very end before our currency legislation can be on a sound basis. It is the Queen's head on the coin which is the guaranty of its weight and fineness, and alone

gives it value as currency, and if we are to accept paper as legal tender, it should be the issue of the State only, not the issue of a private company, however powerful, still less of a company placed under an engagement which it is known that it could not fulfil, and resting its security simply on the assumption that it will not be called upon for the fulfilment.

The objection is one of principle, and no arguments, however specious, in favour of a departure from it should be allowed to prevail; if coin must come from the Queen's Mint, still more should the Queen's Government be directly responsible for paper currency, and any shifting of this responsibility or mixing up of the currency with banking operations must be attended with mischievous results.

The currency should be established on such a basis that the whole amount should be perfectly free and available for the national wants, unfettered by the exercise of any discretion whatever; but millions may be and are held in reserve at the discretion of the directors of the Bank of England; it is not intended to reflect in any manner on these gentlemen personally; indeed it may be truly said that the Bank Court is composed of gentlemen whose intelligence and high character would reflect honour on any country; but the system is radically wrong. To allow men engaged in business to have control, however limited, over the issues, is to place them in a

false position ; occasions will arise in which the judgment must be affected by considerations of self-interest, apart from which it will be difficult to satisfy the public mind that jealousy of competitors has no weight in the scale.

Separate as the two departments of the Bank of England appear to be, there is a close connection between them. A diminution of bullion in the issue department lessens the power of the Bank to fulfil its engagement to pay the notes in gold ; and stringency in the banking department, by raising the rate of interest, is adopted as a remedy, with this result—that the whole trade of the country, which is now so large that there can never be less than engagements to the extent of two hundred millions unliquidated, is liable to be disturbed by the difference of a few hundreds of thousands of bullion in the coffers of a private company. Had the Bank no liability in respect of the currency, this could not happen ; but let us take another view.

The four principal joint-stock banks in London hold deposits to the amount of more than sixty millions : let us suppose that, accidentally or by concert, instead of paying their surplus money into the Bank of England, they collectively retain in their tills about 2,000,000*l.* more currency,—*i.e.*, bank-notes and coin—than usual ; (the supposition is not a wild one ; the account of one of the joint-stock

banks in question shows that it opens shop habitually with about 750,000*l.* in currency, and has an equal sum on its account at the Bank of England :) what would be the consequence ? Unquestionably an advance in the minimum rate of discount. Thus, by keeping an extra 2,000,000*l.* idle, a very much larger profit might be realized on the amount employed.

What is here put as a supposition is precisely what happens from raising the rate of interest at the Bank of England, especially when the advance is carried to an exorbitant extent. Apprehension is excited that a point may be reached at which money, meaning currency, cannot be obtained ; and to meet the probable demands upon them, the several banks throughout the country are compelled to hold additional Bank of England notes and coin to an amount which, in the aggregate, would be sufficient, if available, to allay all alarm ; that this is so, is placed beyond doubt by the fact, that immediately permission is given to relax the restriction on currency, panic subsides, and money is found to be superabundant.\*

But to justify the stringency above adverted to, it is said that trade being extended, and profits increased, more capital is called for, and capitalists

\* Evidence was given before the Committee of the House of Commons, in 1858, that one country bank, working usually with 80,000*l.* or 40,000*l.* in notes and coin, felt it necessary to keep 235,000*l.* in the till in time of panic.

are entitled to share in the increased profits by receiving a higher rate of interest; unless for capitalists, money-dealers be substituted, the statement is utterly fallacious. Of what advantage would it be to a capitalist to obtain a temporary high rate of interest when he must make a large sacrifice of principal to render his capital available; that he would have to make this sacrifice the following extract will be sufficient to prove:—"Consols have experienced a further fall, and are again approaching the lowest point of the year, while in all other securities there has been corresponding weakness. *The symptom of the market to-day was, that any attempt to press a large sale of any particular class of stocks or shares would have been met by a heavy decline.*"

In the very same article we read, and the apparent inability to appreciate the contradiction is positively marvellous:—"As regards the financial position of the country everything is going on well." What is here stated with regard to stocks and shares was equally true with respect to land, houses, goods, or any description of property. The effect of the restrictive clauses of the Act of 1844, in connection with the other conditions of our legislation respecting currency, is to confer a heavy protection on the dealer in money, and to place the whole trade and industry of the country at his mercy. So long as the restriction, coupled with the obligation on the part of the

Bank of England to sell more gold than it possesses, at a fixed price, is maintained, so long does the protection continue; and a reference to the evidence before the Committee of the House of Commons in 1857 will show that the supporters of the system cannot object to the term of a protective statute. Before that Committee it was distinctly avowed by the witness upon, or, as the word upon has been objected to, in entire accordance with whose evidence the Act of 1844 was passed; that, in his opinion, the pressure of the debtor interest was always a predominant power, and that the Government ought to extend protection to the creditor interest; and can it excite wonder that legislation guided by such a spirit, should bear bitter fruit? Our usury laws have been abolished, and perhaps wisely, but it must not, therefore, be concluded that there is no such thing as usury; the Holy Scriptures are of everlasting application, and the thing meant by the word usury, when applied in a condemnatory sense, will be found among us as long as the world exists. It may be perfectly fair, when both sides are free to act, that 10 or 15 per cent. may be properly received and paid for the use of money; but in such a case a part of the payment only is really for interest, the other is the premium of insurance on a risk mutually known and admitted; but when the power is all on one side, and advantage is taken of it to charge the premium of

insurance where no risk is incurred, then usury, in the objectionable sense, steps in. Until Consols are at 50, nothing but legislation on false principles can render it possible for the money power to tax the honest and legitimate trade of this country with interest at 9 or 10 per cent.

But another consequence of the unsound system on which our currency is based, is that the abundance of material wealth is held up as the cause of scarcity of capital. If the only result of having a currency be to involve us in such a contradiction as this, we had better revert to barter than to adopt a servant which becomes so perverse and tyrannical a master.

The defenders of such a system are frequently found to adopt very reprehensible means in support of their arguments, as the following instance will show:—"The balance-sheet of Messrs. —, whose failure was mentioned yesterday, shows liabilities (chiefly on acceptances) to the amount of 32,768*l.* and assets estimated at 3,684*l.* If the result of the present pressure is mainly to put a stop to business carried on in this manner, there are few who will fail to recognize that the corrective process has become necessary." Can anything more disingenuous than this statement be conceived? If, in his chapter on fallacies, Whately had wished for an example of the *petitio principii*, could he have found one more in point? The impression intended to be conveyed is

that the pressure, viz., the high rate of interest is good, *because* it stops business conducted on such a basis; but is a high rate of interest necessary to stop such business? The merest tyro in figures could answer No; the lowest rate of interest would speedily bring matters to a crisis where such a disproportion between liabilities and assets existed. Our system is powerless to prevent such business, but it is powerful to aggravate the evils resulting; by heavy charges for interest and depreciation of assets, it has been eminently successful in reducing dividends.

But because our legislation may be imperfect it does not follow that there are no other evils to be corrected; prominent among these is the reckless manner in which credit is given, of which some instances, not drawn from the imagination, but which have actually occurred, shall be adduced. On a large scale, the credit given to America, which led to a severe financial crisis, may be profitably considered. Thirty years ago nothing was heard but praise of the United States; the old Royalist feeling had nearly died out, and the future of the great Republic was regarded in this country with the most hopeful pride. To promote her public works we parted with our capital, not our money, for of that, in the technical sense, little was sent, but our coals, our iron, and our various manufactures, receiving in return principally bonds and stocks and shares, which were simply

promises to pay; at last there was a collapse, but the facility of obtaining money here by which it was for a long time averted, was so obvious to those who had opportunities of watching the means employed, that it was stated that a man favourably known might start in business almost without capital, and in a short period owe a quarter of a million; the idea was ridiculed at the time, but there have been, unfortunately, too many cases since to prove its accuracy. Another instance shall now be mentioned. A gentleman on the Stock Exchange had, in consequence of the retirement of his banker, to place his business elsewhere; shortly afterwards, having a heavy account, he called on his new bankers to know if, in the event of its being required, they could let him have 40,000*l.* or 50,000*l.*, on his transferring consols into their names; the answer was, "Oh! thank you, Mr. —, we never lend money on stock; but if you want 50,000*l.* or more, we shall be very happy to place it to your account without any transfer." In this instance the bankers were safe; they knew their customer had means, and more, they knew his character; but never to lend money "on stock," but to lend it without security, is scarcely a safe rule of business. Similar in substance was the following observation:—"I never lend money on warrants; warrants I know nothing about; but bills I understand, therefore bring me bills." Again, a highly

respectable firm had some large transactions open, and to guard against the possibility of their clients not being duly ready with the money, they applied to the friends with whom they had occasional transactions to know if an advance could be made to them, if required, upon the deposit of the securities; they were told, "We would rather not have the securities, but if you will draw a bill, get it accepted, and bring it to us, we shall be very happy to discount it for you." It is not necessary, but it would be perfectly easy to multiply these instances, but let the operation be carefully observed; when an advance is made on warrants, or other securities, there is usually a good margin as to value, with possession of the property; when a bill is drawn, it is usually for the utmost cost of the goods, which are left in the hands of the borrowers, to be used again, it may be, in some shape or another should an emergency arise, and if not, there can be no recourse to them till the maturity of the bill. One fatal result of the Bank Act of 1844 is, that it has encouraged the notion of there being something in our legislation which keeps a wholesome check upon trade, and supersedes in some degree the necessity for caution; nothing can be more fallacious; the Act has no such power, nor can the place of discretion be supplied by any Act of Parliament. Credit must of course be given, but when more monetary accommodation is required than a man can

obtain from his own bankers, or from those from whom he may fairly expect it in the regular course of his trade, caution is necessary with regard to the security; if for the sake of obtaining a better price than a competitor in business, or for the sake of a commission, or high rate of interest, credit be improvidently given, the creditor should abide the consequences, and not be able to make up a shilling of his loss by extra charges on other persons.

But there are many who consider that over-production and over-trading occasion our financial difficulties; no doubt, there may be a surplus at some time of a particular commodity, and that some individuals will trade beyond their means; but it has been shown that by allowing the natural law of supply and demand to have free course, any evils of this kind will work their own cure much more satisfactorily than if any attempt be made to correct them by tampering with money. It is idle to talk of over-production or over-trading in the aggregate while there is a single person who is compelled to go short of a dinner, or wants a coat to his back. To point to the large increase in our imports and exports as a proof of over-trading is simply absurd; if we govern India wisely and cultivate amicable relations with China and Japan, is it anything unreasonable to suppose, considering the many valuable articles they have to give us in return for use and

distribution, that they should take some twenty shillings' worth a head per annum of our manufactures and of goods which can be most advantageously procured through our instrumentality? Consider in addition the widely-extending commerce with other places which we are wisely endeavouring to encourage, and it will be seen that a thousand millions may scarcely be the limit of our operations; and shall we crush a trade like this because some fancied equivalent in gold is not offered to the Bank at the price of 3*l.* 17*s.* 9*d.* per oz., when it may suit our neighbours to offer 3*l.* 19*s.* 7*d.*? To these complainants about over-trading the writer would address the same arguments which he used thirty years ago upon another subject. At that period the cause of all our difficulties was supposed to be a redundant population; it was in vain then to say that the Divine command to increase and multiply and replenish the earth and subdue it, was still in force; the men of that generation were wiser than the Great Creator of the Universe, and a supercilious shake of the head would satisfy you that at least four men out of six were disciples of Malthus and Miss Martineau. The error was so beautifully illustrated by one of our popular writers that the temptation to quote his eloquent words cannot be resisted:—"God! to hear the insect on the leaf complaining of the too much life among his hungry brethren in the dust!"

Thirty years hence, or perhaps sooner, for intelligence is rapidly increasing, it will be as plainly seen that to complain of over-production or over-trading is to begin at the wrong end, and that to provide facilities for the distribution of the means of comfort and enjoyment which the blessing of Divine Providence upon our industry and enterprise places at our disposal, is far wiser than to find fault with their abundance.

Two courses may be suggested as a basis for the currency; it might be entirely a bullion currency, or a currency based exclusively on bullion, in which case it would be important to consider whether one of the precious metals only should be adopted to the exclusion of the other, and it would also be necessary to take the most direct means of securing an adequate supply, in place of the tortuous and mischievous course now pursued with that object, or, we might find ourselves in a position similar to tribes in Africa, starving in the midst of an abundant harvest, because a ship with cowries happened to hang for a few weeks on the bar.

Or, having provided that the interest on the Government debt should be three pieces of gold per annum of a certain weight and fineness for every hundred pounds, to base the further currency required on that debt, rendering it reconvertible at the option of the holders; but in this case the cancellation of

Government debt and creation of currency must be one operation; there must be no use of the same capital twice over, and the surrender of the interest must be the price paid. Whether either of these, or any other plan be adopted, the following considerations should always be borne in mind, viz. :—

That currency, whatever its basis, must always be artificial in its value, and that care should be taken in legislating upon it to preserve, not to injure, that which is material.

That currency, being the creation of the Legislature, should be the issue of the State only, and that in a direct manner, not through any private company.

That the basis of it being well established, the natural law of supply and demand should have free course, and that to give to any class of men, however eminent or respectable, either control over, or prior knowledge respecting it, is to commit an injustice on their competitors in trade.

The facts herein mentioned are within the actual knowledge of the writer; the fallacies adverted to have been forced upon his attention by long experience. His opinions have not been formed without much reflection, still they are not propounded dogmatically; for if it can be shown that in any respect he is in error, it will be a satisfaction to him to have that error corrected: truth, and truth only, being the object he has had in view.

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# BANK AUDITS:

THE  
PRACTICABILITY OF A THOROUGH INDEPENDENT  
SYSTEM CONSIDERED.

BY  
HENRY FISHER,  
MANAGER OF THE MIDLAND BANK, LIMITED, WOLVERHAMPTON AND LATE OF THE  
YORK CITY AND COUNTY BANKING COMPANY.

Dedicated by Permission  
TO  
EDWARD BAINES, ESQ., M.P.

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## BANK AUDITS:

THE PRACTICABILITY OF A THOROUGH INDEPENDENT  
SYSTEM CONSIDERED.

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To EDWARD BAINES, Esq., M.P.

SIR,—In approaching so important a subject as the consideration of this question involves, I would acknowledge that I do so with diffidence, knowing it to be *beset* with difficulties.

It is, however, a matter of the gravest importance that the audit of our Joint Stock Banks and Financial Associations of every class should be at all times, and in every case, what it professes to be—but what it is *not* at all times—a certificate of the true position of a company at the time of audit, and such, speaking broadly, as would be the result were any company so audited at that moment to wind up its affairs. I venture to submit, therefore, that the sooner the subject is discussed the better it may be for the

proprietary, for the depositors, and for the country generally. And I am of opinion that public intelligence is of late so much advanced on these matters, and so greatly inclined to publicity of accounts, that any endeavour to obtain generally, what we will call a thorough audit of our Joint Stock Banks, would be hailed with the greatest satisfaction. In these days too, of Banks and Financial Associations, we may say *ad libitum*, a supervision of the almost absolute powers of directors is imperatively called for. *Theoretically* directors are but the delegates of their constituency, but *practically* they are without control, so far as *proprietary* power is ordinarily exercised. The law enacts that Joint Stock Banks shall be conducted only under such and such conditions, and notwithstanding that we may be said to have Free Trade in banking under "the Companies' Act, 1862," yet that very Act stipulates for certain conditions under their limited liability license, beyond those required of the old Banks, obliging many particulars to be made public which have not hitherto been required of Joint Stock Banks; so that although very far from doing all that could possibly have been effected, there is yet little doubt that the "Companies' Act, 1862," will prove a step in the direction of a *sound system* of Joint Stock Banking. I cannot, therefore, but think that its provisions might have extended a little further, and have devised a *thorough* power of audit that should have established its solidity, and have afforded a great *national* safeguard.

So much does the welfare of any community depend upon its national credit, and so vastly do our now numerous Joint Stock Banks and other Financial Associations affect the state of our credit, that it may be laid down as reasonable that a Government which concerns itself so closely with the purity of coinage and the convertibility of the National Note, might fairly extend its interference to a compulsory investigation being made of such institutions by publicly authorised auditors or inspectors, to be assisted by other local and practical commercial knowledge. At present we may have reports where securities utterly valueless are returned as undoubted assets, or others where the prices are much exaggerated to the ruin of investors, and all this without any effective check, when even the unaided inspection of almost any independent person could not fail to detect the viciousness of many such reports: *but so long as a Bank declares good dividends the great majority of shareholders take them without any inquiry.*

A moment's reflection on the mode in which Bank Audits are made will show the system to be mere outward ceremony, having no practical value to the shareholders or to the nation. I hold that the operations of our Joint Stock Banks, and similar associations, are now so powerful that their aggregate report is not *less* due to the nation than each individual one is to its proprietary.

Be it understood then, that, as a rule, a balance

sheet is prepared by the executive and submitted to the directors for their approval, after which it is laid before the auditor, who then examines it with the aid of such vouchers as he can procure, together with certain generalized statements submitted to him, and from these the several entries are checked off. The totals being found to agree, the work is done, and the report declared to be correct. Correct probably it is in most cases so far as it goes, but it is one thing to find a *statement* arithmetically correct and another to investigate the *securities* on which that statement is founded; and it is submitted that when the executive find it convenient to *conceal* the actual position of a concern, the auditor, practically, is powerless to *expose* it. Nay, so altogether is the present system of audit a mere sham, that it is even probable some day or other we shall be aroused to a keener sense of its insufficiency by some gigantic fraud committed even in the very face of this merely arithmetical investigation. Witness the Redpath frauds on the Great Northern Railway, in 1856, when, by the prefixing of the figure "1," he converted £500 into £1,500, continuing the game unchecked to the tune of £150,000. Whilst then insisting mainly on a system of audit competent to deal with a Bank's *securities*, it is not to be forgotten that there equally may exist a necessity for a searching audit as to mere arithmetical correctness. The Railway Company had their auditors, and Redpath, knowing the part they did not investigate, chose to deal therein. This consisted in a non-

comparison of the "Transfers" with the "Register" book. If, as the auditors *alleged*, the checking off of these matters was no part of their duty, then the blame is the directors'. Be it whose it might, it teaches forcibly the necessity for internal vigilance and constant, thorough supervision of clerks. Nor need I call to your memory where, in the absence of efficient checks, Bank clerks have practised similar frauds to large amounts.

As evidence, generally, how much auditors' or directors' statements may possibly prove to be worth, I may refer you to the later ones of such failed Banks as "The Western Bank of Scotland," "The Liverpool Borough Bank," "The Northumberland and Durham District Bank,"—all of which had been shown to be in a most prosperous condition up to the moment of failure, at which time the liabilities of these three Banks alone amounted to over £14,000,000. How many sad tales this involves I may not now dwell on.

Reverting for a moment to the Borough Bank of Liverpool, it is to be observed that, at the date of its winding up, the whole of the capital, close upon £1,000,000, was found to have been lost, whereas the statement or report in July preceding was such that not only was no such loss apparent, but that had an auditor been called in, *acting under the usual power vested in such person*, he would, from the arrangement of the accounts, have given his certificate of the correctness of that report. For it is to be borne in

mind that his function extended *only* to the examination of the *accounts*, and not in any degree to the valuation of *securities*. Thus we have a statement showing under "*Assets*" "*Bills discounted for Customers*," "*Due from Customers*," &c., a sum of £940,000, every penny of which at that time was sunk and utterly lost. The statement, although not verified by an *audit*, had yet the authority of the Board. But it was elicited in the examination before the Parliamentary Committee of Mr. J. Dixon, a managing director of said Bank, that the system of management as he found it on his connection with the Bank, *only about two months previously*, was that the shareholders trusted the directors—(shareholders always do so long as good dividends are paid)—but that the *general* body of directors knew nothing whatever of *individual* transactions; that this general body of (nine) directors trusted the three managing directors, and the three managing directors trusted the *manager*. Mr. Dixon shows that at the time of the Bank's stoppage it had nearly £1,000,000 in bills in London under discount, which could not have been negotiated except for the Bank's endorsement stamp;—mainly bills which the Bank should not have dealt with at all, and on which *his knowledge of the parties, brought about by his own mercantile experience in Liverpool*, warranted him at once in pronouncing the most unfavourable opinion;—bills bearing the appearance of good trade bills, but yet representing transactions and amounts quite beyond

the position and business of such parties. His further investigations showing a system of "*Renewals*" utterly at variance with good Banking. It is deeply to be regretted that a gentleman possessing the keen perceptive powers and integrity of Mr. Dixon should not have combined therewith fortitude to have thrown expediency to the winds, and have resisted being a party to a report so entirely at variance with facts. In the failure of the Leeds Banking Company we have in many respects almost parallel circumstances. But, whilst the *manager* of the Liverpool Bank had a fortune swept away as a proprietor of his Bank, it is to be observed that the late *manager* of the Leeds Banking Company was *not* in any degree so committed.

I need not go into any particulars of the dreadful misfortune befallen so many of your esteemed and honoured townsmen as well as others; all the sad trials thereby caused are, I am sure, too vividly before you.

I believe I am correct in stating that the Leeds Banking Company, like the Borough Bank of Liverpool, had not any provision in its Deed of Settlement for an audit of its accounts; but, from the remarks already made on the nature of Bank audits, especially so long as the Bank showed earnings equal to 40 per cent., it is not to be supposed that, had such provision existed, there would have been any exercise of it.

Here permit me to refer briefly to the Royal British

Bank, whose proceedings and finale are, no doubt, fresh in your memory. And, in addressing you on this subject, I deem it not inappropriate to reproduce to you one or two features in the history of that villainous scheme in support of the necessity that exists for more effectual measures in protection of Joint Stock Bank proprietors. I would observe, then, that the directors, managers, solicitors, and others favourably initiated were, at the time of the Bank's stoppage, under advances to the amount of probably £100,000, which, together with an advance of over £100,000 in some Welsh mines, were returned in their last reports as good *assets*; the latter realising some £6,000, the former, I may venture to say, almost nothing. Yet, here again it is probable that had an auditor gone through the accounts, *acting under the power usually vested in such auditor*, as before remarked, he would have given his certificate of their correctness.

I would also speak briefly of the late Unity Bank—perhaps I shall most effectively do this by quoting from the public examination of the manager and secretary before the Lord Mayor, at the Mansion House, as detailed in the newspapers of 5th November instant. Mr. Lewis, in stating the case for the prosecution, said:—

"The next and the gravest item, and to which he begged the most serious attention while he explained it, was the item entered under the heading of "Bills discounted, loans to customers, &c.," £207,668 14s. 10d. He would here state that he would prove most clearly, under the handwriting of both of the

prisoners in books kept by them for the Bank, that this item was mostly a gross fabrication, and was concocted jointly by them in a manner well worthy of being thoroughly exposed. The effect of that item on the balance sheet was to lead the shareholders and the world to believe that the Bank had good assets in the shape of bills then under discount, and not due, and loans to customers which had not arrived at maturity. But what could his lordship think of the conduct of these defendants when he was informed that that item on being analysed consisted of debts due from customers of the Bank upon their dishonoured bills? From 1859 to 1860 bills amounting to £10,769 18s. 6d., which had been dishonoured during that time, and bills of a similar character dishonoured during 1861, and amounting to £12,552 18s. 6d., formed part of this large item of £207,668. Again, there was included in this item bills of an old and desperate discounteer lying unpaid at the west branch amounting to £7,990 13s. 2d., some of which had been over-due since 1857. There was also a cheque paid in error, and a remittance which was lost in April, 1861, together with three notes-of-hand of £1,000 each, dishonoured in 1857, renewed but again dishonoured in 1858, and upon which a final dividend of 5½d. in the pound had been long since received by the Bank. Most of the parties to these bills had become bankrupt, and the debts were considered irrecoverable. In the present days of Joint Stock Banking, which had almost superseded private Banking, and to which institutions the public were largely invited to subscribe, if such irregular items could be concealed under the terms "bills discounted, loans, &c.," it was a mockery to issue periodical balance sheets, which, instead of showing the actual financial position of the Bank, assisted to conceal it."

Leaving these powerful arguments, we may go back to the investigations by the Secret Committee on Joint Stock Banks, in 1837, and review the disclosures of the "Agricultural and Commercial Bank" (of Ireland), and the "Northern and Central Bank" (of England), and we there find a state of things that, one thinks, would at least have resolved Parliament to attempt some preventative measure, by compulsory audit and inspection, against the recurrence of such criminality and consequent ruin. Indeed, it seems scarcely

credible that the Legislature should have suffered the mischief caused by Joint Stock Bank failures to have continued from time to time so long without decided efforts to check it, for amongst the witnesses in the above investigations we have the evidence of the late Mr. Gilbert, favouring the idea of a more frequent publication of accounts, and a much more detailed form of statement, verified by some independent audit. We have, again, under the examination of the Select Committee on the Bank Acts, in 1857-8, the evidence of K. D. Hodgson, Esq., M.P., the present Governor of the Bank of England, in the same direction. Further, on careful reflection it will be seen that the evidence of nearly all the witnesses examined on this point under Parliamentary Committees, on the working, &c., of Joint Stock Banks favours, to a considerable degree, an opinion as to the possibility of a system of *independent* audit; whilst full *publicity of accounts* was strongly dwelt on, even so far back as 1832, in evidence on the Bank Charter. But with one and all, the insuperable difficulty seems to lie in a belief of the impracticability of combining in an audit that indispensable local, mercantile knowledge capable of dealing with *securities*, and at the same time *banking* experience capable of a thorough inspection of a Bank's operations. As to the first requisite named, I venture to say that there are amongst the proprietors of every Joint Stock Bank men whose practical, local, and commercial knowledge is equal to that of the direction. That, at the

time of the failure of the Leeds Banking Company in particular, there were many of its shareholders who were able to value nearly the whole of the West Riding paper afloat, and who, had they been called in even twelve months ago, would have saved effectually the Leeds Banking Company from the ruin which has befallen it.

The tenor of Mr. Hodgson's examination, above referred to, strengthens materially the opinion held as to the practicability of an independent audit. On the application of the Northumberland and Durham District Bank to the Bank of England for assistance, in 1857, Mr. Hodgson was deputed to go to Newcastle along with Mr. Newman, a partner of Messrs. Freshfield, for the purpose of ascertaining whether their position was such as to justify the Bank of England in giving the assistance sought, and, in answer to a question by Sir James Graham (Q. 3,538), he declares that in two hours he discovered the exact state of the Bank, and that, although he had the aid of the parties seeking assistance in his endeavours to ascertain their position, yet, if otherwise, he believed that it would have been quickly arrived at, his attention being at once directed to the *securities*. Mr. Hodgson at this period was the London correspondent and agent of Beaumont's Lead Works, in the neighbourhood of Newcastle, and was acquainted with that district, and thus his local mercantile knowledge,

coupled with his experience in banking,\* at once designated his fitness for the duties assigned him.

In the person, then, of Mr. Hodgson we have all the elements for a perfect audit. In a considerable degree we had the same elements present in Mr. Dixon, of the Liverpool Borough Bank; and, although it may not be practicable to obtain a *class* of men as public auditors and inspectors of Banks equally fitted, yet the *combination* of these necessary elements is held to be practicable.

In the course of his examination Mr. Hodgson further allows that an independent auditor appointed by some authority would be a great check upon a falsified Bank report, if a man of good judgment; but he observes, "In auditing a Bank, and taking an account of the assets of a Bank, every thing depends upon the correct judgment of the person examining the assets. An asset is either good or bad. A bill of exchange, for instance, is either the very best asset or the very worst, and it depends upon the judgment of the person examining the assets whether he counts it as a good or as a bad asset." Of course, this observation will be seen to apply equally to loans to customers and all overdrawn accounts without security. It is to be observed that "bills discounted," "loans," "due by customers," &c., is the great feature under "*assets*;" but supposing for a moment an auditor to have disposed of these, there are other points re-

\* Mr. Hodgson was at the same period a director of the Bank of England.

quiring the exercise of discretion based on experienced banking and general knowledge—local and mercantile. For instance, there may be securities which, in the strict sense, are not *banking* securities and on which, in the case of a wealthy Bank, advances may be even safe and prudent, but it rests on the judgment of an auditor where the limit of such advances is to be.

In supposing an auditor to have disposed of "bills discounted, &c.," as before noticed, we must, however, look at some very considerable difficulties in his way, and—First, as to *overdue bills*, on which the best local knowledge might be at fault as to the margin of loss to write off from time to time. There would also, perhaps, be no part of the function sought to be assigned to the audit where greater discrimination, greater judgment, or where a more intimate acquaintance with the details of the business was required than in the matter of "bills renewed." It appears, however, to be very possible to discern between what may be a legitimate exercise of this power and any system of renewed bills carried on for supporting hollow business, or in perpetuating as long as possible advances originally made on *accommodation* paper. It will be remembered that Mr. Dixon was able to discover that such practices had existed in the management of the Liverpool Borough Bank to a considerable extent.

Again, a large and influential Bank may have a considerable amount of bills in circulation, either

under re-discount or in the hands of its customers, bearing the Bank's endorsement; and herein lies one of the greatest difficulties the audit would have to encounter. Not seeing the bills, but only a list with drawers' and acceptors' names, without *endorsers'* signatures, they could not, with such data, pass anything like a certain judgment thereon. Nor is it easy to see how to overcome this difficulty, unless it can be accomplished in degree by making the bills received book a detailed register of every endorsement each bill bears, requiring also classified statements of amount of bills on which each such endorser is liable to the Bank. I do not state it on authority, but I believe the Bank of England, amongst its other perfections in accounts and book-keeping, has a system by which, in what is called the "Upon" ledger, the amount under every endorser's name is ascertained at a glance. I am also aware that a system aiming at these results is carefully practised by some managers in the provinces; and it is within the scope of my experience and acquaintance to say with great benefit to their Banks severally.

Mr. J. E. Coleman, whose experience as an eminent London accountant extended over the commercial panics of 1847 and 1857, in his examination before the Select Committee on the Bank Acts, in 1858, amongst other matters recommended that Banks should have a specific form for rendering their half-yearly accounts, to be signed by at least a *committee* of the directors themselves. There is, of course, some

value in this suggestion, as appearing to oblige directors to have a better knowledge of the Bank's affairs than is, perhaps, the case where the whole thing is entrusted to a managing director and the manager. But it does not seem to have occurred to Mr. Coleman that at best this is but the supervisor supervising himself. I refer to this more particularly as introducing a further recommendation of his on a matter of great importance, and on which he speaks very strongly, viz., that such accounts should particularize "bills renewed" and "over-due bills"—insisting on the latter as an item on which serious mischief had arisen. "Assuming for the moment," Mr. Coleman observes, "that a Joint Stock Bank may have £200,000 of over-due bills, or £300,000 as their usual sum, but that at some half-year the amount is £500,000, that very fact would lead to enquiries being made to know how it was, and the proprietors would then get information which they ought to have." Adopting this suggestion of Mr. Coleman, let us suppose Joint Stock Banks obliged to render the following particulars, viz.:—

"Bills Discounted"—less "Rediscounted."—Bills renewed and Bills over due being each specifically stated.

"Overdrawn Accounts."—With security—securities defined and particularized.

"Overdrawn Accounts."—Without security.

"Loans."

But these, be it remembered, are usually stated in the gross without any particularization, and represent the *major* part of a Bank's assets.

In reference to overdrawn accounts "without security," I would just remark, that banks in certain districts are in the habit of allowing substantial customers to overdraw considerably for short periods—as on the purchase of raw material, wool, flax, &c. But this is understood in such districts, and the publication thereof would not, therefore, be viewed as extraordinary.

Again, be it observed that on the other side of the balance sheet, under *liabilities*, we have not unfrequently "Amount due by the Bank for Customers' balances, deposits, acceptances, letters of credit, circular notes, &c," all included in one sum: a form of rendering accounts that may cover anything, and is scarcely less unsatisfactory than the points previously referred to. This matter has, however, been so ably insisted on in the pages of the *Economist*, that I shall not further dwell on it, save only to say that I believe the London and County, the Consolidated Bank, Limited, and the Midland Bank, Limited, may be taken as exceptions; but they are, I believe, the only home Banks whose reports, previous to my writing, have particularized their liability on acceptances.

Now, these analyses of a Bank's accounts, made at frequent intervals,—let us premise MONTHLY,\*—would unquestionably show the progressive working of such Bank, and would lead, almost certainly, to the detec-

\* Vide 7 and 8 *Victoriæ*, cap. 113, s. iv.

tion of any considerable amount of unsafe business having been done, equally would it exhibit any declension in deposits, &c.; and at the same time such form of account would greatly facilitate the work of inspection and audit. But, *unauthenticated*, neither this nor any form of account that could be devised would be of constant reliable value. This may be safely asserted as the opinion of many eminent banking authorities.

Whilst *supposing*, then, the practicability and consequent authenticity thereof, I also see in such accounts a valuable index, not only as to the credit and progress of any individual bank, but also of the soundness of trade in general. And again, I insist that so vast is the importance of this question, that these particulars in aggregate are not less due to the nation than the accounts of any individual Bank are to its proprietors.

From what has been already advanced, it will be seen that unless an audit is able to follow pretty closely almost every transaction of a bank, particularly with reference to Bills of Exchange in circulation and under re-discount, such audit would be imperfect. It might declare the balance of accounts right according to the ledger—as is the case now in Banks where provision for *audit* is made,—but without it possessed information far superior to what is expected, or, indeed, required of an auditor at present, unless the *audit* was almost equal in knowledge to the *direction*, it could not be what it is

desirable an audit should be, but which, nevertheless, it may closely approximate to.

Having already quoted several flagrant cases of Bank failures, I do not seek, by repeated instances, further to impress on you the necessity for better legislation on this question; indeed, I am assured your information on these matters is only exceeded by the sympathy you have with the sufferers thereunder. I, therefore, simply lay the following list of failed banks before you for your reflection, assured that if silently, they will powerfully enforce the consideration of this grave and important subject:—

EXTRACT FROM THE *TIMES'* MONEY ARTICLE,  
3RD MARCH, 1863.

"Sir,—In 1858 an interesting paper was published by Messrs. Waterlow and Sons, under the ominous title of *British Losses by Bank Failures*, and extending from 1820 to 1857.

"At the present time, when there is so great a mania for the establishment of new Banks, it may not be out of place to call attention to the general facts proved in this document.

"Omitting, then, the years previous to 1846, which may perhaps be considered to be out of date, and taking the twelve Years from 1846 to 1857 inclusive, it appears that the liabilities of the private Banks which suspended payment, amounted to £6,700,000, and those of the Joint-Stock Banks to £40,800,000, making a grand total of £47,500,000.

"To this, moreover, must be added another £1,500,000 for some Banks the liabilities of which are not mentioned.

"I am, Sir, your obedient Servant,  
"G."

	Private Banks.	Joint Stock Banks.
	£	£
1846.—Newcastle Joint-Stock Bank, Newcastle-on-		
Tyne ... ..	—	400,000
Leeds and West Riding Banking Company,		
Leeds and Bradford... ..	—	See below

	Sheffield and Retford Bank, Sheffield and Retford ... ..	—	350,000
	Latham and Co., Dover ... ..	90,000	—
	Leeds Commercial Banking Company, Leeds ... ..	—	251,500
1847.—	Leeds and West Riding Company, Leeds and Bradford ... ..	—	—
	North of England Joint-Stock Bank, Newcastle-on-Tyne, and 10 branches ... ..	—	2,205,811
	Clayton and Co., Preston ... ..	120,000	—
	Henry Knap, Abington and Wantage ... ..	145,000	—
	Royal Bank of Liverpool, Liverpool... ..	—	1,790,000
	Liverpool Banking Company, Liverpool ... ..	—	546,000
	Scholes and Co., Manchester ... ..	91,273	—
	Union Banking Company, Newcastle-on-Tyne, and 9 branches ... ..	—	1,800,000
	North and South Wales Bank, Liverpool, and 20 branches ... ..	—	610,000
	Oldham Banking Company, Oldham ... ..	—	120,000
	Brodie and Co., Salisbury, &c. ... ..	133,511	—
	Cockburn and Co., London ... ..	—	—
	Sir F. C. Knowles, Bart., London ... ..	—	—
	Brodie and King, Shaftesbury ... ..	2,155,490	—
	George G. Holland, Sheffield ... ..	—	—
	T. Foster, Harthurn, &c. ... ..	—	—
	Stockton and Durham Joint-Stock Bank, Stockton, &c. ... ..	—	(?)
	Adams and Warren, Shrewsbury ... ..	34,500	—
	Flood and Lot, Horiton ... ..	91,000	—
	Gundry and Co., Bridport ... ..	120,000	—
	Gibson and Sturt, St. Alban's ... ..	13,673	—
1848.—	J. S. Story, St. Alban's... ..	10,000	—
	Union Bank, Calcutta... ..	—	1,250,000
	Bank of the West Indies, Barbadoes ... ..	—	1,100,000
	R. Porritt, Huddersfield (see below) ... ..	—	—
	London and Dublin Joint-Stock Bank, London and Dublin ... ..	—	(?)
	Commercial Banking Company, Isle of Man		
	Matthews and Co., Chipping Norton		
	Tod and Hill, Edinburgh ... ..	(?)	—
	R. Porritt, Huddersfield... ..	—	—
1849.—	Samuel Kenrick, Wrexham ... ..	23,000	—
	Royal Bank of Australia, London ... ..	—	450,000
	R. M. Lloyd, Wrexham ... ..	48,000	—
	Tice and Welch, Christchurch ... ..	25,000	—
	Banking Company of Aberdeen, Aberdeen, and 14 branches ... ..	—	620,000
	Benares Bank, Benares ... ..	—	230,000
	Butterfield and Co., Petersfield ... ..	(?)	—
	Southern Bank of Scotland, Edinburgh ... ..	—	(?)
1850.—	Nash and Neale, Reigate, and 2 branches ... ..	56,917	—
	Commercial Exchange Company, Glasgow... ..	—	921,858
	North British Bank, Glasgow ... ..	—	1,500,000
	Union Exchange Company, Glasgow ... ..	—	750,000
	West of Scotland Investment Company, Glasgow ... ..	—	350,000
	Glasgow Exchange Company, Glasgow ... ..	—	(?)
	National Exchange Company, Glasgow ... ..	—	210,780

	Exchange Bank of Scotland, Edinburgh ...	—	750,000
	Banking Company of Aberdeen, Aberdeen ...	—	900,000
1851.	Rufford, Biggs and Rufford, Bromsgrove ...	95,605	—
	Rufford and Wragge, Stourbridge ...	334,508	—
	Monmouth and Glamorganshire Banking Company, Newport, &c. ...	—	814,000
	Sunderland Bank, Sunderland ...	—	132,000
	Williams, Williams, and Son, Newport, Monmouth ...	88,000	—
	Trapp, Halfhead, and Co., Redford ...	370,369	—
	Simpson and Co., Peterborough ...	—	30,000
1852.	The Berks Union Bank, Reading ...	—	300,000
	Mauritius Bank, Mauritius ...	—	—
1853.	Holmes and Co., Douglas, Isle of Man ...	190,000	—
	Tanner and Co., Marlborough ...	60,000	—
1854.	Lemon and Co., Brompton ...	(?)	—
	British Colonial Bank and Loan Company, London ...	—	(?)
1855.	Shropshire Banking Company, Shifnal, and 3 branches ...	—	160,000
	De Lisle, Janvyn, and De Lisle ...	100,000	—
	Strahan, Paul, and Bates, London ...	802,678	—
	Palmer and Green, Lichfield ...	188,189	—
1856.	Cheltenham and Gloucester Joint Stock Bank, Cheltenham ...	—	120,000
	Tipperary Joint Stock Bank, Clonmel, and 8 branches ...	—	550,000
	Adams and Co., Hertford, &c. ...	103,000	—
	Smith and Whittingstall, Hemel Hempstead ...	65,178	—
	Newcastle Commercial Bank, Newcastle ...	—	89,850
	Royal British Bank, London ...	—	687,640
	Farley, Turner, and Co., Kidderminster ...	45,000	—
	Jones and Co., Crickhowell ...	(?)	—
1857.	London and Eastern Banking Company, London ...	—	590,240
	Dumbell, Son, and Howard, Isle of Man ...	50,000	—
	Smith, Hilder, and Co., Hastings, &c. ...	150,000	—
	Goth and Sons, Kettering ...	132,026	—
	Harrison, Watson, and Co., Hull ...	560,000	—
	Lowe and Co., Preston ...	113,549	—
	Liverpool Borough Bank, Liverpool ...	—	2,402,275
	Western Bank of Scotland, Glasgow, and 76 branches ...	—	9,171,641
	City of Glasgow Bank, Glasgow ...	—	4,897,339
	Northumberland and Durham District Banking Company, Newcastle, and 8 branches ...	—	2,809,233
	Wolverhampton and Staffordshire Banking Company, Wolverhampton ...	—	860,000
	G. T. Ward, Smithfield ...	20,000	—
	Hille and Sons, Dartford, &c. ...	60,000	—
	Owen and Gutch, Worcester ...	89,451	—

Private Banks, £8,773,914

Joint Stock Banks, £40,819,003

This might be supplemented by many failures since 1857.

I have now to refer you to the *provision* which certain failed Banks have had in their "Deeds of Settlement" for audit and authentication of their accounts.

On the same point I may also refer to Banks at present in existence;—observing that I quote from returns required to be made by Joint Stock Banks to the Secret Committee on Joint Stock Banks, in 1837.

## YORKSHIRE DISTRICT BANK.

(Failed.)

Auditors are appointed in the terms of the 71st clause of the Deed of Settlement, which is as follows:—"That at every general meeting of the proprietors of the said Bank, to be held on the first Friday of February in each year, they shall appoint three of the proprietors (none of them being a general or local director of the said Bank, and each of them being a proprietor of 50 shares therein at the fewest) as auditors, to examine the accounts of the general board of directors of the said co-partnership, to be produced to the general meetings of the proprietors, directed to be held on every first Friday in August, and to sign such accounts, if found correct, and not to report thereon to the general meetings unless the accounts be found incorrect; which auditors are hereby empowered to require the production of all books, vouchers, writings, and documents concerning the same accounts, and to call in the aid of the general and other managers, accountants, clerks, and officers of the said co-partnership; and every of such auditors shall, previous to entering upon the investigation of the matters committed to their care, subscribe a declaration engaging to observe secrecy in respect to the state of the accounts of individuals with the Bank."

## MONMOUTHSHIRE AND GLAMORGANSHIRE BANKING COMPANY.

(Failed.)

Report, February, 1837, prepared and sanctioned by directors, was read to the proprietors, and a clause of the deed was read authorising the appointment of auditors to examine the accounts, but the proprietors present declined to appoint any such auditors

or to investigate the accounts, being quite satisfied with the statement made to them.

#### EAST OF ENGLAND BANK.

(Failed.)

Reports and accounts are to be prepared under the responsibility of the general board of directors and submitted annually to general meetings of proprietors, to be held in Norwich on the first Wednesday in June, and which meetings are empowered to appoint auditors.

#### LEEDS BANKING COMPANY.

(Failed.)

*No provision for Audit.*

Report prepared by the manager and submitted to the examination of the directors.

It is to be presumed that the foregoing provisions for audit were *not* exercised.

I now quote two or three Banks at present in operation.

#### DUDLEY AND WEST BROMWICH BANK.

Summary of accounts is made up on the responsibility of the manager and cashier, and submitted to and audited by the directors at a special meeting. Proprietors at a general meeting are fully empowered, by clause 31 in Deed of Settlement, to appoint two shareholders to examine the accounts, and to direct the production to such auditors of all books, writings, and documents necessary for such investigation of the accounts, and of the affairs of the company.

#### DEVON AND CORNWALL BANKING COMPANY.

The audit and examination of the accounts is entrusted to two directors, and the reports are prepared under the responsibility of the whole board. The Deed of Settlement, sec. 31, page 24, provided that in case of dissatisfaction with the statement of the affairs of the company, every annual meeting may appoint two shareholders, qualified as directors and auditors to examine and report on the state of the accounts and affairs of the company; but this right has not been exercised, the proprietors having passed a unanimous resolution expressive of their entire satisfaction and confidence in the management of the Bank.

#### WEST RIDING UNION BANKING COMPANY.

The accounts are drawn out by the clerks, under the superintendence of the manager, and submitted to and examined by the board of directors previous to the annual meeting, and their report is founded thereupon. By article 49, the annual meeting has the power of appointing auditors to examine and report on the state of the affairs, but which right, circumstances, as yet, have not required the proprietors to assert.

#### HALIFAX JOINT STOCK BANKING COMPANY.

Accounts are made up under the superintendence and direction of the manager and cashier, and examined and audited by a committee of shareholders chosen for the purpose.

Besides these, there are many Banks, making returns at the above date, which show a provision for audit, which if faithfully exercised, would be of great value. There are many which also show the report to be prepared by the manager or directors, and issued on their authority alone, and amongst these are many highly influential and flourishing companies at present in existence.

I have dwelt hitherto on the past as the ground for insisting on the necessities of the question under consideration; I would yet observe that the recent mania for Joint Stock Banks seems to invest the future with much more than ordinary interest. Commencing with 1862 there have been established more than thirty new banking companies, home and foreign, which are at present in operation, and trading with *paid up capital* to the extent of probably not less than £10,000,000,\* and dealing with *deposits* to a very

\* This may be taken as approximately correct, and perhaps within the mark. Until the next report of these Banks is published it is difficult to quote the exact figures.

large amount. In this respect the Limited Banks, as a rule, have been much more successful than was anticipated by their opponents.

Whether Limited Liability shall prove a means of checking the career of any improvident Bank, before it shall have arrived at such an extreme point of ruin as the Leeds Banking Company did, equally with other cases of old Banks already cited, is not perhaps absolutely to the question; this, however, may be asserted that so long as we continue without some system and means for a thorough reliable audit, we remain *fearfully* liable to a repetition of calamities brought about by bad banking and falsified reports.

In considering, then, the practicability of an efficient system of audit, it is submitted that the difficulties of a purely *Governmental* audit are very great, nay perhaps insuperable. From the nature of the duties involved in an efficient audit, in order that it may be *really* thorough and exhaustive, it will be seen that we must combine with local mercantile knowledge competent to deal with a Bank's securities, *Banking* skill and experience of the highest class. Now, Government could appoint an officer having these latter qualifications, but beyond this, practically, it could do no more, and, as further *practicable* only from amongst the *shareholders* of any given Bank, can you secure the former essentials. I *repeat*, as further practicable and *DESIRABLE* only from amongst the *shareholders* of any given Bank can you secure the *former* qualifications.

But it is not to be supposed that Government would charge itself with so responsible a duty as the audit of our Joint Stock Banks. Were such the case—Government electing the auditor—it must of course take the responsibilities of any exercise of mis-judgment on his part. This involves considerations which seem to strike at once at the root of the supposition, and virtually to negative the possibility of it; and, I believe, that equal with the impracticability of a purely *Governmental audit*, is the impossibility of Government devising any form for rendering Bank *accounts* that shall not prove delusive and injurious rather than otherwise, if *unauthenticated* by an *efficient, independent* audit.

If, however, any system of sound audit be possible, now is a favourable moment for discussing it. We have just gone through a state of semi-panic; reports have prevailed, and have been verified to a considerable extent, as to the quality of a great amount of commercial paper afloat,\* and our Finance Companies, and some of our new Banks, have been very strongly reflected on in connection therewith; and had these reports taken deeper root, many of our soundest institutions must have greatly suffered. When all goes well, confidence is blind; when panic is rife, institutions must be sound indeed that do not suffer. I feel assured, however, that were our leading Joint

\* In the course of October last thirty-four firms suspended, with liabilities computed at £9,262,000.

Stock Banks under that efficient audit to be desired, such is their foundation, that public confidence in them would be increased. Not only would the confidence of existing proprietors be increased, but the connection of other influential, wealthy men would be secured;—men whose wisdom and sagacity teach them that the return to be obtained from Bank investments with *unlimited* liability attached (at present, say 5 to 6 per cent., speaking generally), is not worth the “*risk*.” Taken from this point of view alone, it seems manifestly to the interests of the old Banks to forward and support any well-considered scheme for a thorough audit of their affairs,—such as would remove beyond all doubt that feeling of distrust which is daily growing on the monied classes against proprietorship in such companies. For it can be demonstrated that the number of shareholders in a majority of the old Banks has declined of late years considerably, and that in the face of very great profits. To inquire whether this numerical declension embraces many of the more substantial proprietors, would be to descend to particular cases, which would be invidious.

Every solid institution would unquestionably be the better for such an audit; and it is believed that the leading Banks (old and new), London and Provincial, *would* heartily co-operate in establishing any well-devised measure which Parliament may have brought before it.

Having regard, then, to the *provision* which many *failed* Banks have had in their Deed of Settlement, for

means and power of audit, and seeing from time to time the unreliableness of Bank reports, either as under audit certificate or on the authority of directors and managers, I come to the conclusion that our only safety rests in an audit which shall be at once, OBLIGATORY, INDEPENDENT, PRACTICAL, and EXHAUSTIVE.

As I have referred to the immense increase in Joint Stock Banks under limited liability, allow me to direct your attention to the provisions which the “Companies’ Act, 1862,” makes for the audit of these Companies. I quote sections under “Audit,” 83, 84, 86, 87, 91, 92, 93, and 94, as follow :—

83.—“Once at the least in every year the accounts of the Company shall be examined, and the correctness of the balance sheet ascertained by one or more auditor or auditors.”

84.—“The first auditors shall be appointed by the Directors: subsequent auditors shall be appointed by the Company in general meeting.”

86.—“The auditors may be members of the Company; but no person is eligible as an auditor who is interested otherwise than as a member in any transaction of the Company; and no director, or other officer of the Company, is eligible during his continuance in office.”

87.—“The election of auditors shall be made by the Company, at their ordinary meeting in each year.”

91.—“If no election of auditors is made in manner aforesaid, the Board of Trade may, on the application of not less than five members of the Company, appoint an auditor for the current year, and fix the remuneration to be paid to him by the Company for his services.”

92.—“Every auditor shall be supplied with a copy of the balance sheet, and it shall be his duty to examine the same, with the accounts and vouchers relating thereto.”

93.—“Every auditor shall have a list delivered to him of all books kept by the Company, and shall at all reasonable times have access to the books and accounts of the Company: he may, at the expense of the Company, employ accountants or other

persons to assist him in investigating such accounts; and he may, in relation to such accounts, examine the directors or any other officer of the Company."

94.—"The auditors shall make a report to the members upon the balance sheet and accounts, and in every such report they shall state whether, in their opinion, the balance sheet is a full and fair balance sheet, containing the particulars required by these regulations, and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs; and in case they have called for explanation or information from the directors whether such explanations or information have been given by the directors, and whether they have been satisfactory; and such reports shall be read together with the report of the directors at the ordinary meeting."

In these are embraced all the leading features in the audit, empowered and provided for under that act, and on the ground of arguments and considerations already gone into, it is submitted that these powers and provisions will be found inadequate to protect the proprietary in such Banks from the misdoings of directors and managers.\*

For experience has proved from time to time in the case of failed Banks, that the policy of managers and directors is to keep up their *dividends* to the latest moment: and *experience further proves*, that so long as good dividends continue to be paid, shareholders will not care to insist on any audit at all.

\* Since writing the above, the following painful exposure corroborates too strongly the view I have here laid down.

Manchester Examiner and Times, Nov. inst.  
THE LONDON AND COLONIAL BANK.  
SINGULAR DISCLOSURES.

At a meeting of the International Bank on Wednesday, a statement was submitted respecting the losses which the London and Colonial Bank had sustained before its amalgamation with the British and American Exchange Bank, and of the extent to which losses are recovered.

The Chairman, Mr. John Pattison, said, speaking of the above Company:—The assets in London consisted chiefly of the dishonoured acceptances of

Further, it is submitted that "the Auditor" contemplated by this Act would not, for reasons already shown, be competent to give a certificate, which should be reliable and undoubted, as setting forth a full and fair balance sheet, exhibiting a true and correct view of the state of the Company's affairs, where the direction and management designed to *conceal* their true position.

A reflection on the difficulties shown to surround the subject under consideration, and, in practice, these difficulties might even be found to be greater, together with the magnitude of the work, must lead to the conviction, as advanced in the opening of my letter, that the subject is *beset* with difficulties. But are they insuperable? Can it be held that any authorised reliable investigation of a Bank's affairs, from time to time, would be so prejudicial to existing interests, or are *existing interests* so great that in leaving the matter as it stands we are but allowing the lesser evil? I say "No."

Joint Stock Banks are now so eminently an *institution* of this country, that the perfection of the

Gladstone and Company, and indeed he might say solely of those dishonoured acceptances. Those dishonoured acceptances amounted to £40,670, and there had been besides £800 abstracted from the bank; and there were also current acceptances which it was perfectly well known would not be met by Gladstone to the amount of £59,462—(great sensation); so that in point of fact there were acceptances to the amount of over £100,000 perfectly worthless, which formed part of the assets of the London and Colonial Bank. But this was not the worst, for there was also to the debit of Thomas Gladstone cash advances to the extent of £23,000 odd. A few days before the amalgamation of the two institutions, it fell to his lot to look through the assets of the bank. He then found that a large portion of those assets consisted of Mr. Gladstone's acceptances, which were uncovered by anything.

system is what we must constantly approximate to. And when prudence, honour, and integrity are at its helm, such are the merits of *Joint Stock* enterprise that we need nothing more. But *failing* these, the law does not afford a sufficient safe-guard for the interests of the proprietors, nor for the community at large.

But the opposition with which any Parliamentary measure on this subject would probably be met is not to be overlooked.

I have referred to the *Financial Associations*, as well as to the Joint Stock Banks, but it shall be supposed that the proposed audit is to apply only to Banks, and it shall apply equally to the old and *new* Banks. Now, there are, perhaps, some of the *former* to whom such a searching examination would be very inconvenient, while a large number of them could afford to adopt such without risk of falling in public estimation. The weak Companies would allege that this compulsory investigation of their affairs, brought suddenly upon them, would further weaken them, consequent on the withdrawal of confidence, incident on a true statement of their condition.

They would, doubtless, seize every pretext possible for opposing generally any measure of this nature. Nor can it be doubted that a bank really unsound being thus called on to show its weakness, would suffer. But it would suffer *deservedly*, inasmuch as its present apparent prosperity is founded on false representations. It can be no valid reason generally

for perpetuating such a condition of things, to allege that the *exposure* of an unsound institution would be its *ruin*. Better stop at once than go on indefinitely catching at chances to retrieve itself until the inevitable crash can be no longer delayed, and the *maximum* amount of ruin and loss has been attained. Had your Leeds Banking Company been so exposed even twelve months ago, happy had it been for its deluded shareholders. *Shareholders*, even, may shrink from these investigations, and see in them the depreciation of their stock, &c., but they are not wise men who will persist in going on when once a doubt can be entertained that their affairs are not sound.

Again, the weaker *new* Banks, would not be slow in joining any opposition to such measure, and would probably contend that the effect of such law would be most prejudicial to them in the early days of their establishment; that it would enforce an invidious comparison of such companies, with old established institutions, and thus while directly prejudicing the former, would enrich the latter and render yet more difficult legitimate competition. But I believe the inherent and intrinsic merits of LIMITED LIABILITY in its application to Joint Stock Banking to be such, that the well-planted new Banks will *continue rapidly to make way* in public estimation.

Nor would opposition stop here. The weaker Financial Associations, dreading the thin edge of the wedge, would see the probability of the measure

soon being applied to them, as a class, equally with the Banks, and most likely the Trading and Commercial Companies would re-echo the injustice of such investigations. But in these several associations, as well as the Banks, who might oppose the introduction of such a scheme, who really would be the parties so averse to investigations of this nature? Would it be the great body of the proprietary themselves, or "The Board?" I fear it would be the latter, dreading in many cases the exposure of their misdoings, now conveniently and effectually covered from the shareholders.

Viewing this question as from that broad basis on which it should rest, regarding it as of national and individual importance, I do say that a necessity, an absolute necessity, demands the interference of the legislature.

Let, then, the legislature exercise its wisdom in devising means *adequate* to protect the vast interests involved in the question on which I have now the honour to address you.

Based mainly on the *foregoing* arguments I beg now to submit to you the following propositions:—

1. That there are 110 Joint Stock Banks\* in England and Wales, exclusive of Foreign and British Colonial Banks with offices in London, having a *subscribed* capital of £70,000,000, and a *paid up* capital of £19,000,000,† and dealing with *Deposits* to an

\* Bankers' Magazine, 1864.

† It is difficult to state precisely, but these figures may be taken as approximately correct and within the mark.

enormous amount. From the absence of precise figures it seems best not to approximate in this matter.

2. That the system of Joint Stock Banking is now thoroughly established as an *institution* of the country, productive of great national and individual prosperity and wealth.

3. That it has, nevertheless, been productive of incalculable mischief, national and individual.

4. That, consequent on the immense increase of trade, import and export, the magnitude of operations, the centralization of money in London, and the speculative spirit of the age, fostered and encouraged by over competition for business by our Banks generally, we must look forward to a *repetition* of such misfortunes, possibly exceeding the past in magnitude and extent.

5. That our national and individual welfare being so deeply involved in the operations of Joint Stock Banking, and such being the imperfection of existing laws thereto referring, Parliament should make it its business to consider the possibility of establishing more effective legislation on the matter than is at present in operation.

6. That in the event of legislation hereon, the publication of *monthly accounts*\* of individual Banks, in the local papers, should be compulsory.

\* It is to be observed that the Bank of England publishes a *weekly* statement of its affairs.

7. That a copy of each such statement should be forwarded monthly to the Board of Trade, who shall register the same for public reference and convenience, and shall therefrom publish a generalized report of all Joint Stock Banks, *quarterly*, in the *London Gazette*, similar to the publication of note circulation.

8. That a better *form* for rendering such accounts is essential, inasmuch as the present form effectually conceals all that is most desirable to be known equally under "*Assets*" and "*Liabilities*."\*

9. That a report, detailed and particularised in some such manner as the following, would carry on its face considerable means for estimating the true position of any given Bank. (In giving these as the *principal* features in a Bank report it is not necessary to indicate *all* the minutiae of a balance sheet.)

Cr.		Dr.	
Cash in hand and at call .....	£ " "	Capital subscribed, £ " "	
Bills discounted .....	£ " "	Capital paid up .....	£ " "
Less rediscounted .....	£ " "	Due on deposit receipts .....	£ " "
	£ " "	Due on customers' balances .....	£ " "
Bills Renewed and Bills Overdue, included in the above, being each specifically stated.		Liabilities on acceptances and endorsements by the Bank .....	£ " "
Overdrawn Accounts — with security .....	£ " "	Circular notes and letters of credit .....	£ " "
(Securities defined and particularised.)			
Overdrawn Accounts — without security .....	£ " "		
Loans .....	£ " "		

\* This is intended to apply to the new as well as to the old Banks. It is to be understood that the Balance Sheet of Profit and Loss is given half-yearly. And in this matter, too, there is room for further detail of particulars.

10. That the *monthly* publication of such a statement would tend to check any considerable amount of bad business being done—a material safe-guard to individual proprietors; whilst the *quarterly* publication of these statements by the Board of Trade under a generalized form would afford to the nation statistics of a very valuable nature.

11. That, in support of these particularizations being published, Sheffield Neave, Esq., in his examination before the Select Committee on the Bank Acts, in 1858,\* admitted that, if it were required of Banks generally, he thought there could be no objection on the part of the Bank of England to particularize "other securities."

12. That, nevertheless, no form of statements of accounts, no matter what its detail, nor the frequency of its publication, would be of any material value if not *authenticated* by a *competent, independent* audit.

13. That the tenor of the evidence of nearly all the witnesses examined on this subject, under Parliamentary Committees on Joint Stock Banks, points to the possibility of establishing an independent reliable means of audit.

14. That having a due regard to the difficulties of the question, such audit could be effected by—

1st. Appointing a class of audit inspectors, gentle-

\* Mr. Sheffield Neave was at this period Governor of the Bank of England.

men proficient as accountants, and of experienced Banking ability generally,—to be elected by a committee of Banks of kindred business and districts, and whose election shall be subject to the approval of the Board of Trade.

(a) Banks being required to publish monthly statement of accounts, it shall be the business of each such audit inspector constantly to visit the Banks in his district and acquaint himself with the details and particulars of their business and working, and the said officer shall under his hand forward to the Board of Trade, quarterly, a return from each such Bank in conformity with the above plan, as a certificate that the provisions for accounts are from time to time faithfully carried out.\*

(b) In the appointment of the audit inspector the approbation of the Board of Trade being required would be an effective check on the election of any person interested, however indirectly, in a partial investigation or report of any particular Bank, whilst it would be impossible for a committee of Banks to combine to elect any person whom they could all influence. At the same time it must be seen to be such Banks' best policy to appoint a thoroughly able banking man to supervise them.

2nd. Combining therewith a committee of the Bank's shareholders, to be chosen at general meet-

\* A consideration of what is involved in the form for statement of accounts above given will show these duties to be very weighty, and requiring the exercise of considerable ability and constant vigilance.

ing, not being on the direction, not fewer than three, nor more than seven in number; of certain qualification as to amount of share capital held, and obligated under secrecy, &c., with power to call in the assistance of the directors and officers in any matters requiring explanation, and to examine all books and documents belonging to the said Bank. "But no person shall be eligible as an auditor who is interested otherwise than as a member in any transaction of the Company."—*Vide Companies' Act, 1862. "Audit" 86.*

(c) It will be seen from a reflection on these *conditions*, and particularly with reference to the last, that it will be necessary for each Bank to publish a list of members *eligible* as (committee) *auditors*—such list to be checked and counter-signed by the audit inspector. This publication might be conveniently made by posting such list in the Bank at least one month before every general meeting, and by supplying members, *on application*, with a copy of the same.

(d) The function of the committee of shareholders shall be mainly to consider and report *HALF-YEARLY* on the assets and securities generally, and who shall state clearly whether in their opinion the report put forth by the directors to the shareholders at the end of each half-year is a full and fair statement of the Bank's position at that time, and if not so, they shall otherwise report specially thereon. But the certificate of audit, when given, shall be jointly that of the audit

inspector and the said committee of shareholders. And the said audit inspector, by virtue of his qualification for such office, and for whose efficiency the Banks are themselves responsible, shall have power to withhold his certificate should the report of the committee of shareholders be such as to convince him that they have not fully or impartially discharged the duties committed to them, and any loss which such Bank may sustain, in consequence of this, shall not be recoverable from such audit inspector so refusing, and any case of appeal shall rest with the Board of Trade, by whom the audit inspector, in default, shall be subject to instant dismissal.

(e.) These means may, or may not, be supplemented by the assistance of a public accountant, who shall certify generally as to the correctness of the accounts conjointly hereon with the said audit inspector.

15. That these several provisions and powers shall be OBLIGATORY and not PERMISSIVE; inasmuch as experience has proved that to give a power for a satisfactory audit, and not to enforce its *exercise*, is virtually to leave matters unprotected, and experience further proves that, so long as a Bank continues to pay satisfactory dividends, *shareholders* will not insist on any audit at all.

16. That it might, however, be expedient not to enforce the exercise of all these several powers *immediately* on the passing of any such Act, it being *optional*, in all respects, until such Act had been in

existence one year. Excepting that, in the meantime, in so far as relates to accounts, it shall be *compulsory* on all Joint Stock Banks alike to prepare such monthly statement, and forward the same, monthly, to the Board of Trade, in all respects as if intended for immediate *publication*. And on the part of Banks not adopting the provisions herein supposed to be made and provided, within the period of one year as above, the Board of Trade shall register the said accounts for public reference only in the event of any such Bank becoming *insolvent*, or winding up its affairs within the said period of one year, but not for *public* reference within such period, otherwise than in the event herein named.

17. That failing the appointment of such audit inspector at first, or from time to time, by a committee of the Banks as suggested, or *otherwise as might be determined on*, the Board of Trade shall elect such competent person as it may deem capable of discharging efficiently the duties herein supposed.

18. That the several Banks included in any given district shall pay, *pro rata* and in such manner as may be determined on the passing of any such Act, the said audit inspector, by whomsoever appointed, at a charge in no case exceeding in the whole £..... per annum.

19. That the audit committee (of shareholders) shall, in any and every case, be paid by each such individual Bank, the amount being fixed on their appointment as aforesaid, but,

20. That failing the appointment at any general meeting (or subsequently) of such committee, the Board of Trade shall appoint such other independent commercial authority as it may deem competent to report on the position of any such Bank, whose remuneration shall, in this event, be fixed by the said Board of Trade.

21. That until the spirit and intention of all these several provisions shall have been complied with to the satisfaction of the Board of Trade, it shall not be competent for any Bank, not so complying, to publish any report whatsoever of its affairs, or pay dividends on account of capital, or money on account thereof, under penalty of \* \* \* \* \*

22. That these provisions for audit cannot be held to be *impracticable*, since it may be demonstrated that in the case of the Leeds Banking Company there were many proprietors eligible as such auditors under all the conditions above-named. And taking this Company (a class of Bank least likely to afford such elements, because of the great number of borrowers a commercial Bank has) as an index, it is fair to assert every Bank could supply the power suggested.

23. That it is erroneous in theory and fatal in practice that any part of the business of a Joint Stock Bank should of necessity be hidden from any member of the board; equally so is it to think that the supervision of a committee of shareholders would be prejudicial to the *permanent* interests of any given

Bank. Common sense dictates that such auditors being interested in a pecuniary point of view, equally it may be with the direction, would not be likely to discharge their duties otherwise than with discretion and, at least, in *favours* of the Bank rather than against it. Whilst any undue or material leaning on their part towards hiding the true position of their Bank would probably be sufficiently checked by the "audit inspector" herein supposed. But, I would also here anticipate what may on a *superficial* consideration of the function of such audit inspector be set forth as a great objection. I mean the fact of its being his duty to go from Bank to Bank, and the *possibility* of his permitting matters connected with any individual company to be incautiously drawn from him. And, that further, it may be objected that the information and power which such person would necessarily obtain might be abused to the injury of any given Bank. But, in anticipating such objections, permit me again to direct your attention to the *nature* of the particulars embraced in the above form for statement of *accounts*, and, supposing that form to be complied with, I believe that any information to be obtained *beyond* these matters might be safely entrusted to such officer without fear as to his inadvertence or misuse of his information.

It is clear, however, that such an officer must become acquainted with *individual* accounts in the several Banks under his inspection, and, cursorily, it

seems undesirable that this should be so. Let this system, however, once take root—let these provisions for rendering the *general* accounts be faithfully carried out, and *individual* accounts overdrawn without security will soon be brought within such compass as to make it comparatively of small matter that a knowledge of such individual accounts is necessarily acquired by this officer.

I am convinced that any audit power composed of *shareholders* only would be totally inadequate to a thorough audit of the great majority of Banks, so that it should be reliable from time to time. I am also convinced that you cannot, under any cursory or *variable* machinery of inspection, have these provisions for accounts faithfully carried out, and on the fidelity with which this is done much depends. If, therefore, an audit is to be *thorough* (and it is of little use to aim at anything short of this) the necessary supervising power to this end must rest *somewhere*. I believe that in entrusting this information to the class of gentlemen whom I have indicated—whose position from *youth* up has alike depended on their *discretion* and ability—it would never be abused. I believe that this system of Bank audit fairly carried out would considerably diminish the *risks* of banking, and would also considerably increase even the present great *PROFIT* of banking.

24. That notwithstanding the *magnitude* of the difficulties encompassing any scheme of thorough audit—notwithstanding any danger to *existing in-*

*terests*, the *CALAMITIES* which have been entailed from time to time on the nation at large from the want of adequate supervision and control over Joint Stock Banks, fully justify an experiment being made *at least* to amend this condition of things.

It only now remains for me to remark that one somewhat considerable difficulty involved in this question has not been noticed, *viz.*, the audit of Banks having influential commercial branches far distant possibly from Head Office.

You will not, however, infer that this is deemed too formidable a difficulty to be brought within the compass of the above scheme, but, rather, that having already dwelt on the subject generally at great length, I leave the consideration of this point until time and circumstances shall further require it to be gone into.

In conclusion, I would record my conviction that it is *PRACTICABLE* to establish a thorough, independent system of Bank audit. I, therefore, leave the subject for the consideration of the public generally, for Joint Stock Bank proprietary in *particular*; and, I trust, at an early date, for that of the Legislature.

The present time seems to me most opportune for instituting a thorough investigation of this important question, and if I have so dealt with the subject as to impress its practicability on yourself, I trust sincerely that yours may be the honour of bringing it about. The difficulties involved in the question are very great, the opposition to such a scheme would

probably be very strong, but I am convinced that your earnest mind, capable of surmounting all this, and your zeal in the discharge of your duties as a legislator, will stimulate you to the achievement of whatever is possible in *mitigation* of the evils which I have so imperfectly brought before you.

I am, Sir,

Your faithful servant,

HENRY FISHER.

14th November, 1864.

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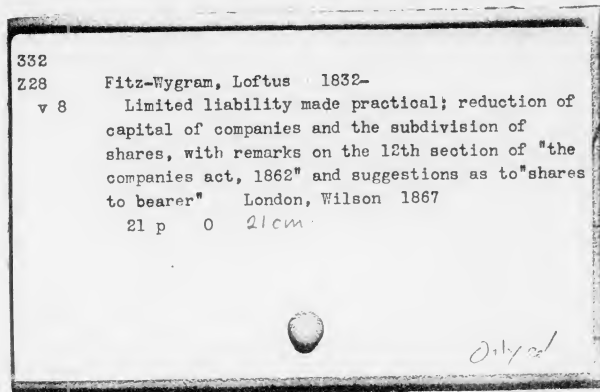
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REDUCTION  
OF  
CAPITAL OF COMPANIES

AND THE

Subdivision of Shares ;

WITH REMARKS ON THE

12th SECTION OF "THE COMPANIES ACT, 1862,"

AND SUGGESTIONS AS TO

"SHARES TO BEARER."

BY

LOFTUS FITZ-WYGRAM, Esq.,

OF LINCOLN'S INN, BARRISTER-AT-LAW.



LONDON :

EFFINGHAM WILSON, ROYAL EXCHANGE.

1867.

*One Shilling.*

## PREFACE.

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THE questions which are brought forward in this short treatise are at the present moment much discussed in the legal as well as the commercial world.

The fact that a measure referring to the principal object of these pages was only defeated by a very narrow majority in the House of Lords last year, and that a similar Bill will, I understand, be brought forward in the present Session, will, I trust, be some excuse for my thus venturing to trespass on public attention.

LOFTUS FITZ-WYGRAM.

5, KING'S BENCH WALK, TEMPLE,  
*January, 1867.*

THE REDUCTION  
OF THE,  
NOMINAL CAPITAL OF COMPANIES.

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THE principle of limited liability may be regarded as established, and, as the late Parliamentary Returns of Joint Stock Companies include, I believe, only seven which are registered as "unlimited," the probability is, that few such Companies will be formed hereafter except on that basis.

Where legislation on a new and important subject is comprised in a single Act, as is the case with "The Companies Act, 1862," it is hardly possible that an Act, however ably framed, must not be susceptible of some improvement, or that some mistaken view must not be taken therein, or some *casus omissus* arise. But the defects which undoubtedly exist are defects more in the carrying out of the principle than in the principle itself.

The object of these pages is to suggest an amendment of the 12th section of the Act of 1862.

We are all, as the public, now familiar—perhaps too familiar—with the form of a Prospectus, with the array of names of Directors, and the assurances of the certainty of the success of the undertaking, and the well-known reference to “the Articles of Association to be seen at office of the Solicitor of the Company.” Attention, however, is rarely specially invited to the Memorandum of Association, the true basis of the intents of the Company, and of which the Articles are but the amplification, and to which they are in law subservient; for it cannot be too earnestly borne in mind that Articles of Association, however wide and extensive, cannot confer power to do any acts, or justify the pursuit of any business not included in or incidental to the Memorandum of Association.

Now, by the 8th section of the Act, which runs as given below,\* it will be seen that the Promoters of

\* VIII. Where a Company is formed on the principle of having the liability of its Members limited to the amount unpaid on their Shares, hereinafter referred to as a Company limited by Shares, the Memorandum of Association shall contain the following things, that is to say,—

- (1) The name of the proposed Company, with the addition of the word “limited,” as the last word in such name.
- (2) The part of the United Kingdom—whether *England, Scotland, or Ireland*—in which the Registered Office of the Company is proposed to be situate.
- (3) The objects for which the proposed Company is to be established.

any undertaking under the Act must, *inter alia*, define the nominal amount of the Shares into which the capital of the Company is to be divided, and probably no point ought to be more anxiously weighed. The nominal capital itself may be small, or, as happily described by Mr. Dickens, “a figure of two and as many cyphers as the printer can get into the same line;” but the question still remains, into what Shares of what nominal value ought the capital to be divided?

When the Act first came into operation, it was more usual to divide the capital of the new Limited Liability Companies into Shares of large amounts, for the reason principally that, when they were placed in good hands, the necessary capital was more easily raised. Experience is now in favour of the opposite system, which affords equal security to the creditor, and greater convenience to the Shareholders and the general public.

We shall more easily understand why opinion has thus changed if we take the case of a Company perfectly sound in itself, but whose capital was originally in Shares of a large nominal value. What has followed? As soon as a time of finan-

- (4) A declaration that the liability of the Members is limited.
- (5) The amount of capital with which the Company proposes to be registered, divided into Shares of a certain fixed amount.

cial difficulties arose, other Companies, based on the principle of large Shares, failed, and heavy calls were made.\* The public at once conceived an abhorrence of large Shares, and awoke to the fact (now painfully clear) that nominal limited liability is in many cases practically unlimited. If, as in a recent instance, the Shareholder who paid up £10 on each of his £50 Shares, fully expecting never to be asked for more, is suddenly called upon by legal compulsion to pay at once the remaining £40 per Share, his ruin (unless he be a capitalist) is equally complete as if he were not under the protecting shadow of so-called limited liability.

But the position of the supposed Company continues sound, and confidence in it would be undiminished save for the incubus of the nominal liability attached to the holdings. The step to be taken is obvious: the Directors say at once, "Our large nominal capital is not and cannot be required; let us assist our constituents, and as we should in due form increase our capital had more been required, so let us now reduce it to the amount which we find will be actually necessary, and in lieu of every £50 Share we will issue to the holder thereof a £25 Share."

If, however, as often happens, a considerable

\* At this present time a call of £30 per Share has been made by the liquidators of one Company, and of £40 per Share by those of another.

portion of the nominal capital should be really required as each call is made, the market value of the Shares sinks, purchasers are not to be found, and the larger the Share sought to be transferred, the more cumbrous, inconvenient, and unnegotiable it becomes, until in hard times it cannot be practically transferred except at a ruinous discount. The Directors again argue,— "There is no market for our £50 Shares; let us issue five Shares of £10 each, with a proportionate amount marked as paid thereon, for each £50 Share. Where an intending transferor cannot find one purchaser of a £50 Share, he will probably find five purchasers each of a £10 Share; we will call in the old £50 Shares, and exchange them each for five £10 Shares. The aggregate amount of the capital of our Company will be the same for the security of creditors, and our Shareholders will possess Shares more easily transferable."

Both these schemes, however, viz.,—

1. The reduction of nominal Capital.
2. The reduction of nominal amount of Shares, although apparently very practical and simple in themselves, cannot be carried into effect, and for this reason, that the Act of 1862 here intervenes. The course proposed may be, and is in fact, fair, simple, and just, but it is not included in, and therefore is contrary to, the provisions of the 12th section, which bestows only the following powers:—

XII. Any Company limited by Shares may so far modify the conditions contained in its Memorandum of Association, if authorized to do so by its regulations, as originally framed, or as altered by Special Resolution, in manner hereinafter mentioned, as to increase its Capital, by the issue of new Shares, of such amount as it thinks expedient, or to consolidate and divide its Capital into Shares of larger amount than its existing Shares, or to convert its paid-up Shares into Stock ; but, save as aforesaid, and save as hereinafter provided, in the case of a change of name, no alteration shall be made by any Company in the conditions contained in its Memorandum of Association.

Some have supposed the powers of this section to be extended by the 50th section of the Act. But it is clear by the words, "Subject to the powers," &c., that the powers contained in the last-mentioned section are limited to those sanctioned by the 12th section.

There are but two ways of doing that which is forbidden by law—

1. By private legislation.
2. By altering the general law on the subject.

The necessity of diminishing the nominal amount of Shares was experienced long before the recent commercial panic, and from time to time, with that view, Private Bills were deposited for the purposes of individual Companies. As far as my recollection serves me, only one of these Bills, and that under very exceptional circumstances, ever passed into a law. I do not remember if any Bill ever came to a formal discussion in either House, but my impression is, that all were withdrawn, it being understood that the Chairman of

Committees of the House of Lords refused his assent in each case. At the same time it is right to state that his Lordship was not, I believe, opposed to the principle involved in such bills, but only objected to exceptional legislation in particular instances.

The private redress for particular grievances—although it was owing to the notices to be given, and the expenses to be incurred, both tedious and costly—having thus failed, many applications were made to the then Board of Trade, to introduce a general measure on the subject. These applications were favourably received by the then President, and the Companies who had given notice of Private Bills last Session were informed that steps would be taken for the passing of a Public Act. Finally a Bill was brought in intitled, "The Companies Act (1862) Amendment Act." This measure ran thus :—

#### A BILL TO AMEND THE COMPANIES ACT, 1862.

Be it enacted by the Queen's most Excellent Majesty, by and with the Advice and Consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the Authority of the same, as follows :—

1. In addition to the Powers conferred by Section Twelve of The Companies Act, 1862, on a Company limited by Shares to modify to the extent therein mentioned the Conditions contained in its Memorandum of Association, any Company limited by Shares (incorporated either before or after the passing of this Act) may so far modify the Conditions contained in its Memorandum of Association, if authorized to do so by its Regulations as originally framed or as altered by

Special Resolution in manner in the said Act provided, as to divide its Capital or any Part thereof into Shares of a less Amount than that fixed in the Memorandum of Association, but not of a less Amount in any Case than *Ten Pounds*, and may for that Purpose subdivide its several existing Shares, or any of them, into Two or more Shares, but so that any Share created by such Subdivision be not in any Case of a less Amount than *Ten Pounds*.

2. Every Company that alters the Division of its Capital under the Authority of this Act shall give notice of such Alteration to the Registrar of Joint Stock Companies.

3. The Subdivision of an existing Share, under the Authority of this Act, shall not operate to relieve a Member of the Company from any Liability to which he was subject in respect of that Share before its Subdivision.

4. This Act shall be construed as One Act with The Companies Act, 1862, and may be cited as The Companies Act Amendment Act, 1866.

This Bill, brought in as a Government measure, passed through all its stages in the House of Commons without any serious dispute, and having been read according to custom a first time in the House of Lords, came on for the second reading thereof on the 8th day of June, 1866.

It might have been fairly expected that a Government measure which had passed without a division through the House of Commons, and with which many Members of that House were practically conversant, and more especially as the second reading was moved and the general principle of the Bill was approved by the Chairman of Committees, (perhaps the highest living authority on legislation relating to Companies,) would have met with but

little opposition. Lord Redesdale was, however, followed by Lord Overstone, who "contended that the returns obtained by himself in two former years showed a great increase in the number of Shares in Companies in existence; that the Bill would tend to the further multiplication thereof; that many commercial failures were daily occurring; that by any such increase of the number of Shares more and more persons would be affected by any such subsequent failures; that small Shares would but allure people of humble means to embark in speculations leading to a like disastrous result;" and who finally implored their Lordships "not to give additional liberty or further existence to a system (*i.e.*, limited liability) fraught with such dangerous failures."

His Lordship was answered by Lord Stanley of Alderley, who justly observed that "Lord Overstone's speech was simply that of an opponent of limited liability *ab initio*, without reference to the Bill in question; that the failures alluded to by him were not brought about by limited liability; and that even if a Company failed, the creditors thereof would be better secured by having as their debtors 10 Shareholders each of a £10 Share, than one such of a £100 Share."

The debate was continued by Earl Grey and Lord Teynham respectively, against and for the measure, and on the division the Bill was lost by

a majority of three, the numbers being seventeen to fourteen.

There are but few of Lord Overstone's observations that might not be questioned, if the case is, as it should be, viewed and argued on public grounds. If the basis of smaller Shares (not under £10) is, as remarked by a recent writer on the subject, quite as secure as the narrower one of larger Shares, and if it be advisable, of which there has been no question, not to exclude the middle classes from investing their savings in Joint Stock Companies, there can be no doubt that the Shares should be so framed that they may be at once within the reach and suitable to the circumstances of this class of investors. The Joint Stock system, in the present gigantic state of mercantile operations, prevents what may be termed the middle classes of commerce from being out-bought, out-sold, and out-financed by the great capitalists. And to the Joint Stock system limited liability is a necessary, an imperatively necessary, adjunct and accessory.

The consequences of this vote of the House of Lords were soon visible: the existing depression of Companies was enhanced; Shares in sound and unsound undertakings became equally unsaleable, the promises of the Government had not been realized, and Companies were driven to do for themselves, in a costly, roundabout, and inconvenient way, that which they had trusted to Parliament to enable them to effect

by an easy and inexpensive process. Various and complex were the schemes that ensued. Some Companies dissolved, liquidated their affairs, and then obtained certificates of incorporation, under slightly varying names, with a capital divided into Shares of less nominal value; and this is now the usual course. A Company winds itself up, and transfers its business to a newly-formed undertaking, which is, in fact, but the old Company itself, with the desired changes effected in the constitution thereof. Some have pursued the beaten track of private legislation, and given notice to deposit Bills for the coming Session. Some have availed themselves of powers in their Articles of Association to accept surrenders of Shares, and then re-issued the same, sub-divided, as new Shares.

This is the state of things at this moment. Where reforms of any Act are imperatively required, legal ingenuity will always find a way, roundabout it may and must be, but still a way to do indirectly that which an accidental omission in the Act forbids to be done directly.

But why is this ingenuity required? Simply because the wording of the 12th section stands in the way, and, while commercial sense and public feeling point out the course to be pursued, prevents its adoption. Those interested in the change proposed, and they are nearly the whole investing public, can only hope that, even amid the throes of political reform and the intricacies of railway

debenture legislation, the Bill of last year may be again brought forward *melioribus opto auspiciis*, and that it may not be again interdicted to do, generally and simply, that which individual Companies now effect in tortuous and complex fashion. By such a measure alone can the commercial status of many Companies be restored.

Thus far we have only advocated that which was contained in the Government Bill of last year. May we advance further, and hope the Bill of the pending Session may include not only the reduction of the nominal value of Shares, but also the reduction of the nominal capital of Companies. Here I am aware that I am treading on somewhat doubtful ground, and am free to confess that to such reduction it may be necessary that the consent of the Board of Trade may be required in each particular instance. But application to and the assent of that Board, after due inquiry, would be a sufficient guarantee to the creditors. I should also recommend that notice of any such application should be obliged to be served on each individual creditor, by the usual advertisements, and that every creditor should be at liberty to appear in opposition.

I venture to add a few remarks on the existing system of registration of Shares. The object of registering each Share in a particular name is two-fold :—

- 1st. To enable the Company to know who is responsible to them for the unpaid amount on each Share.

- 2ndly. To enable those interested as creditors or otherwise in the Company to see at a glance the constituent body with whom they have dealings.

So long as liability is still attached to the Shares, this system of registration works well, and, I may venture to say, is necessary. But a time arises (and very early in some Companies, where Shares, or a considerable portion thereof, are permitted to be paid up in full) when this liability ceases, or practically ceases, to exist. When this is so, the object of registration is fulfilled; the Company cease to have an interest, as far as further demands on those Shares are concerned; the creditors of the Company care but little in whose names the Shares stand, for even the highest names are but of trivial moment when those names are no longer responsible.

But although the objects of registration in a particular name thus cease to exist, still in this country the transfer of a fully paid-up Share remains fenced around with the self-same legal formalities as were attached to such Share before it became fully paid-up. Yet the object and aim of those formalities is gone; it is a matter of total indifference to the creditors of a Company, and to the Company itself, whether the Share is registered in any particular name, or if, indeed, it is registered at all, but still the same ceremonies must be gone through on each successive transfer as if the

original amount of liability remained attached thereto. In other words, whether the Share is burdened with the whole weight of its original liability, or whether all such is discharged, it cannot be transferred except by deed and registration. On the Continent Shares paid-up in full, and I believe also Shares marked with a certain amount as paid, pass from hand to hand by delivery, or as it is technically termed, as "Shares to bearer." Here alone it is otherwise. I am here in this place bound to anticipate an objection which will probably be made, that, as at present, every transfer deed ought to bear an *ad valorem* stamp according to the amount of the consideration expressed on the face of the deed, the Government would lose such duty if the existing system of transfer was abolished in the case of fully paid-up Shares. I might fairly contend that although it is enacted that the consideration in a transfer deed should be "truly stated," the Act for that purpose is really too often rendered ineffectual by the, I regret to say, growing practice of transferring even very large amounts of Shares for a mere nominal consideration, and thus practically evading the stamp duty on the price really as between the transferor and transferee received and given. In lieu, however, of advancing any such argument, I would venture to suggest that some such course as that sanctioned by the 16 & 17 Vict., c. 59, sect. 14, "with respect to bonds of certain public Companies," and of which section

here give a summary, might be usefully adopted, and would be found advantageous to the public and not detrimental to the revenue.\*

It will be remembered that not long ago Parliament, on the motion of Mr. Gladstone, sanctioned the issue of certificates to bearer with respect to stock in the Public Funds; and it is submitted that somewhat similar certificates might with safety and advantage be allowed to be issued with regard to stock of Companies, and also as to fully paid-up Shares, which are but a species of stock, and may, by the Act of 1862, be at any time consolidated into actual stock.

Whether we might not also imitate our Continental neighbours, and attach Coupons (either blank, or of fixed amount, to Shares, is a further question, and forms part of the system of "Shares to bearer" advocated above.

Another reason, I think, for allowing fully paid-up Shares to pass by delivery alone is, that they would attract the attention of the large class who, almost as matter of principle, decline to have any connection with Joint Stock Companies. Many persons shrink from a nominal liability in the very safest concerns; and some, even where

\* Sect. 14. The transfers of bonds and mortgages made by public Companies, under Acts of Parliament for securing moneys authorized by such Acts to be borrowed, shall be exempted from stamp duty where the bonds or mortgages have been, before any transfer thereof, stamped with quadruple *ad valorem* duties.

the Shares are fully paid-up, object to the appearance of their names on the Register; but no one would object to be the owner of a fully paid-up Share to Bearer, to which no liability whatever attached, and which required no formality of transfer or of registration. The most timid investor would feel that he could not by any possibility, under these circumstances, incur any loss beyond the sum given by him for the purchase of such fully paid-up Share, and that he held a security perfect in itself, in so far as involving no further risk, and easily negotiable.

These suggestions, however, are perhaps somewhat foreign to the original purposes of these pages. My aim was to show the expediency of allowing Companies to reduce the nominal liability on their Shares by a general and simple process, and the other points arose from the discussion of that subject.

The whole question of such reduction seems to be most fairly summed up in a few remarks kindly made on these pages by one of the leading financiers of the age.

"As the law stands, a Company started to-day may register itself with what Capital it likes, divided into what Shares it pleases. Why does the same law preclude Companies started before experience was found to be in favour of small Shares (not under £10 each) from sub-division

of the nominal amount of their Shares? Either the power given by law of dividing Capital into small Shares is good and just, or the reverse. If the law which confers such power on new Companies is bad, let it be at once repealed; if it be good and just, let all Companies equally participate in the advantages it confers."

These remarks seem to me to embody the whole question at issue.

It was my intention to have here inserted a Draft Bill, formally drawn, and containing the several objects advocated above. I understand, however, while writing these observations, that the present Board of Trade intend to submit to Parliament early in the present Session a measure embodying several of these points. I therefore refrain from drawing that which now rests in abler hands, but I venture to hope that the above suggestions may not be found altogether at variance with commercial good sense and practical experience.

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Potter, Edmund

A letter on banking with  
limited liability

London

1858

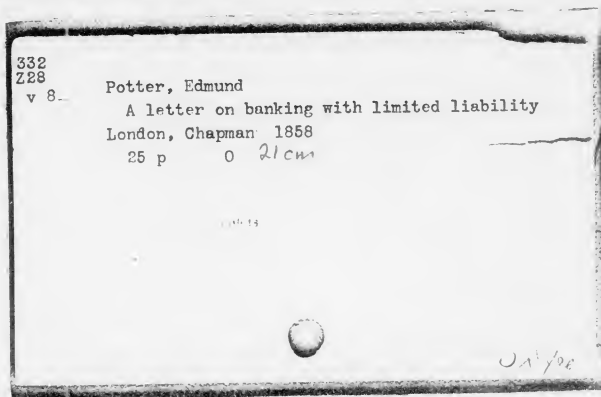
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*Ed Rhodes*

A LETTER

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#9

ON BANKING

WITH

LIMITED LIABILITY,

BY EDMUND POTTER.

LONDON:

JOHN CHAPMAN, KING WILLIAM STREET, STRAND.

MANCHESTER: JOHNSON AND RAWSON, 59, MARKET STREET.

1858.

A LETTER, &c.

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DEAR SIR,

Two years ago we discussed, pretty fully, the question of Limited Liability in Partnerships.\* Since that period, two Bills, granting under certain conditions, Limited Liability to Companies of above six subscribers, for all purposes except banking and insurance, have been passed. The first of these Bills was hurriedly passed at the very termination of the Session of 1855. It was found practically useless, if not positively dangerous, and was repealed on the passing of the present Bill in 1856—a Bill, admitting the principle to be sound, I am willing to confess useful and creditable enough.

The present Bill gives power to parties to form trading companies, and all other classes of association, (excepting banking and insurance) involving no further risk to the shareholders than the loss of the subscribed capital.

\* Practical Opinions against Partnership with Limited Liability, in a Letter to a Friend, by Edmund Potter.—London: John Chapman, King William Street, Strand. Manchester: Johnson & Rawson.

Men may deal in money's worth in all shapes; they may buy calico for credit, and sell it for cash, but they may not buy bills and discount them, giving less gold for them by the rate of interest agreed upon, supposing they are bankers, without infringing the law,—in fact, banking is prohibited, but not pawn-broking; upon what principles it is hard to say. At all events, the promoters of Limited Liability, or rather the Cabinet, durst not enunciate the full avowal of the principle, that provided associated parties gave notice how they were trading with each other in money, their responsibilities to themselves and the rest of the community might be limited to a declared amount. Perhaps this was thought a dangerous doctrine to promulgate, when applied to £. s. d. I need not repeat at any length to yourself, the grounds on which the Limited Liability party sought and gained their Bill. They gained their point with the reservation I have stated. They now seek complete power to work out the principle of Limited Liability, and apply it to Banking: not, they state, merely to give parties power to trade or bank as they like with each other, or to make contracts, limited or otherwise;—but as a means of cure for wild and reckless Banking, such as the Western Bank of Scotland has pursued, to the ruin of hundreds of its shareholders.

Some of those who seek to complete what they partially obtained last year, and great authorities too in monetary matters, do not hesitate to express the opinion, that Limited Liability in Banking would

correct and do much to prevent, in future, such a monetary crisis as we are now passing through. I purpose presently to examine some few of these opinions, and to give you my own,—perhaps strengthened in my views by watching the evils I conceive to have arisen from Limited Liability Acts.

Very briefly referring to my former opinions, you will remember that I did not object to Limited Liability Charters for schemes, not competitive trading ones, but for such projects as might be a benefit either to their projectors or the country, and which private capitalists would not undertake.

But I never could understand the honesty of allowing a company of seven parties to work with a limited risk, whilst five, with precisely the same trade and capital, were to be fully liable. I could not comprehend why capital, differently distributed, should be differently treated. I could not see what the public was to gain by tempting speculations with Limited Liability, for I presume the good intended by absolving a debtor from liability beyond a declared sum, was hardly meant to be a bonus to him without an equivalent public good.

Perhaps it has been a most happy circumstance that high and increasing rates of interest, ever since the Bill came into operation, have prevented a world of mischief. Seven to ten per cent. interest has been a bar; safer investments have been plentiful, and cash scarce, and many who would have been tempted into the promised schemes to supply the public with every-

thing imagination could suggest, better and cheaper by means of joint capital, have been happily prevented.

If I had time, or it was not rather beyond my present purpose—viz., “an examination of opinions lately expressed in favour of Limited Liability being extended to Banking,” I should very much like to get one of my parliamentary friends to move for a return of all the Limited Liability schemes which have been projected since the Act came into force.

The *Economist* of the 19th of December, has an able and partially truthful article, on “The want of self-respect in the Commercial Classes,” in which it shows, and truly shows, how they are noodled by names, how easily they are duped, and led to join schemes (Limited Liability schemes, he might have said) merely from the fact of a few scheming, titled, and other names being placed at the head of them. I would ask that the return should give these names. I should like them marked by a shrewd private banker at their value,—that done, we might draw our own conclusion as to the objects they had in view. I should like the return also to give the past and present history of the acting directors, secretaries, and lawyers, with the deposits which each party had paid. The nature of the schemes and projects would be still more amusing. There has been no time yet for successful working, and therefore, it would be unfair to ask for a return of profits; however, a certain number have declared dividends, perhaps in some cases as an encouragement.

The returns ought also to give a real priced shareholder, which might also be tested. A few sheets of paper would, I fancy, give at one glance, such a collection of melancholy absurdities in the way of projects, the offspring of a single year, as would be unequalled by private enterprise in a score.

It was more because I thought the doctrine of Limited Liability a shrinking from the fair consequences of speculative acts, that I opposed it two years ago, than from the fear of consequences which would, in some degree, rectify themselves.

I anticipated then the folly and mischief of irresponsible management, and regretted very much the constantly repeated and, as I thought, fallacious example held up, of the practical and then apparently prosperous working of the Joint-stock system in the United States.

However, to limit myself to my question, is Limited Liability desirable, as applied to Banking?

I am averse to referring too much to the past, or to the practice and experience of other countries. I say *too* much.—I am not going to throw overboard experience; but I think I may remark that our monetary and mercantile transactions in this country so completely rule, or ought to do, from their power—growing power and extent,—the rest of the world, that we have only to establish a sound, responsible, and honourable career as an example, to compel others to follow us.

It has been well said in that very able paper, the

*Saturday Review*, "There are countries as famous for originating panics, as others are for the development of infection." America, and her apparent prosperity, infected us with the idea that she made capital more profitable than ourselves—she stretched credit further—in fact she, not our Joint-stock Banks, originated the panic which is now sweeping over the entire mercantile world. I do not say it could have been avoided even had she met most of her engagements, but she has added to its virulence by her Limited Liability and credit system. I ventured the remark two years ago, that in the United States, Banks paid a better rate of profit than trading and mercantile companies. Banking, some of us think, ought to be a safe, prudent calling, and not a high rate of profit-paying business. If new Banks, without long-gained connections, pay high dividends here, we think it must be by risks and high rates of discount. Can these be beneficial? I have no positive means of making the assertion; but I might venture a question, which I think your experience would answer in the affirmative. Are there not in the States, more than double the number of Banks we possess, in proportion; and is not the cost of Banking to the commercial interest there, infinitely more costly than with ourselves,—is it not many times so? Is not this a necessary consequence of the system of credit, and the Joint-stock associations? Is it not in consequence of the extent to which Limited Liability, in various forms, is carried on?

Does not systematic jobbery in scrip, shares, and schemes of all sorts, by mercantile houses in New York, in addition to their legitimate business, exist to a fearful extent; and is not this system carried out by means of rediscounted paper, or pawned scrip and shares?—limited shares, in fact, used as a floating paper currency? Will not there be a larger creation, and a greater willingness to create paper, upon which the liability is limited? You remind me that limited paper would become depreciated, and therefore could not be forced out. I say the depreciation, in prosperous times, is not so great as to bar its issue and circulation. I admit depreciation comes with double force in a panic, but is unheeded and almost unthought of previously.

I think no one will deny but that the present panic first showed itself in the excess of American paper, for which she had drawn from us too large a share of commodities. Various conjectures, as to the amount of English capital latterly invested in American securities, have been hazarded. The sum no doubt is very large, and the lessened value, or the real present saleable value, would shew a loss probably larger than the fearful amount calculated a few days ago, as the entire loss by late failures in this country. So long as the Americans went on expanding in paper and credit—good. The hour of contraction came; they quietly adopted a general suspension of cash payments: we could not do that, and the consequence has been the crushing contraction under which we are now suffer-

ing. The panic, then, arose in America from contraction, brought on by a surfeit or plethora of paper, created and maintained by an unsound system.

What has been our own course and progress? Immense expansion, chiefly in monetary matters. Let me explain. I believe our Bill circulation to have largely increased, far out of proportion to our commerce and manufactures. We have done more in long paper, and less in short, sound, mercantile Bills, representing produce only. We too, as we have expanded, have forced up the price of all sorts of commodities, and exhibited the strange and puzzling anomaly, (which every one was ready to explain as an excess of success) of dear, very dear money, and continually advancing rates in produce. Consumption was forced, and high prices were given; paper was created and discounted; ten per cent., it was exultingly said, was no bar,—only a slight slice off the merchants' profit, which he could and ought to pay. This surfeit of paper, partly drawn against high-priced produce (valued at prices never to be realized), and much of it under the promise of being provided for when due, came to us, and forced on the crisis; and we found ourselves holding an excess of paper,—of a class created largely as a vehicle of profit for the use of a name. This paper was sent from all parts of the world. Hamburg, with its solid metal currency, had been led into the system, following a bad example; and the sober mercantile houses of past times were found to have bought and sold paper, merely as they were formerly accustomed to purchase

produce. In fact, it would seem that every nation which could send any produce to draw against, had doubled its drawings on credit only, as if no ultimate responsibility existed. High rates of discount ultimately told, the weakest paper was thrown out, and then came the reaction. A deficiency exists; the loss must be divided—how? It will be widely spread, no doubt, as a rule, but in largest portions amongst those who have lent their names for a per centage without security, either through Banks or otherwise. Such paper will come to an end. The demand for discount at high rates will cease, money will resume its average value, and produce and commodities be cheaper; we, as a community, shall be healthier and more prudent after much suffering, and the sound doctrine of supply and demand will be more faithfully relied upon.

None, perhaps, have profited except the solid, prudent, monied interest—the real legitimate Bankers. Capital has been in large demand, and has received its reward. This again has led the borrower of a discountable name to pay handsomely for the use of it; the owners of such have in fact been thus tempted by large apparent profits. I have heard it stated that particular houses, never perhaps really possessing any great amount of real solid capital, in many cases not equal to a six or twelve months' profit, actually profess to have been gaining upwards of £50,000. per annum. The temptation arising from this system was too great—prudence gave way. In fact, there is scarcely any temptation so great as

that held out to the speculative capitalist. Expansion is easy, returns, by re-discount and pledging so quick, the needed capital so small, and the power of jobbing in all ways so easily acquired, that human nature, once embarked in the headlong course, cannot restrain itself.

Another cause of mischief, arising from the unsound working of public bodies, the Legislature may do something to check, at least so far as by insisting upon greater publicity of accounts and management. I allude to Joint-stock Banks. Some few of them, very few in proportion to their numbers and power, have largely contributed to the mischief of the present hour. Three establishments, the Western Bank of Scotland, the Liverpool Borough, and Northumberland Bank, however, are almost exceptions from the others in extent of recklessness and improvidence. The swindling London establishments are mere examples of clever knavery, and perhaps their example, and the publicity given to it, if punishment does not follow in some instances, may prevent future repetitions, at least very immediate ones.

The mischief done by the abuse of credit, by the Western Bank, the Liverpool Borough, and Northumberland Bank, are made the occasion, then, by the supporters of Limited Liability, for another appeal in favour of the extension of the act to Banking. The misery and suffering of the shareholders, awful in its extent certainly, are brought prominently forward as a reason; but the Legislature is asked to prevent banks

with unlimited liability, obtaining such an amount of credit, and such amounts of deposits on the faith of the entire responsibility of all the shareholders; because such power is liable to be abused by the carelessness of these shareholders themselves. They allowed their directors to trade recklessly with their funds and credit, and to pay the nine per cent., without enquiry at all into the ability of the bank (the Western one) to do so; nay, they allowed this, whilst many of the shrewdest shareholders actually suspected they were too liberally paid.

Well, now, it is proposed to correct this evil course, this exceptional mischief—for I do say, though great in extent, it is comparatively exceptional, and I feel confident, as regards the Joint-stock Banks generally, it will prove to be so—it is proposed to prevent this power for evil, by limiting the responsibility of shareholders. They may have nine per cent. or more if they can get it, and in case of failure, the depositors are to receive what is left of the amount paid up, and no more. The shareholders are to take the entire profit, and bear only the partial loss. The credit of the Bank being limited, its power of mischief, it is assumed, would be equally so. I am not aware that it is gravely proposed to prevent there being Joint-stock Banks with unlimited liability, with their chances of greater credit, larger deposits, and more means of profit when decently managed, or whether it is proposed to allow banking with Limited Liability only. The shareholders in Joint-stock Banks apply for per-

mission to trade under associated rules, in the hope of deriving profit from capital without giving special attention on their own part, their credit and entire responsibility gaining them this profit, when well and carefully managed. And, now when on account of their carelessness, a day of reckoning comes, and the mischief and consequent suffering are large, it is suggested—not that the lesson of experience should be allowed to provide prudence and forethought for the future—but that the losses of the shareholder, the fundamentally guilty party after all, should be restricted by means of a Limited Liability. He asks to be allowed to try Banking with a Limited Liability, consenting to the probability of a smaller rate of profits, or taking a larger if he can, but asking for a liability, limited to the sum he is to state he is willing to risk in the lottery of Banking.

It is sought by this indirect means to prevent Joint-stock Banks from discounting risky paper. Much has been said and written upon the heinousness of taking certain risks. If the folly and unsoundness of the risk run, and entire responsibility, will not prevent its being incurred, nothing else will. Private Bankers with capital, are not found, *even now*, to have taken such risks, simply because they had the knowledge of their direct and full responsibility. You would not attempt to restrict a private Banker from discounting any paper he chose; you could not; you could have no right to interfere in any way. He would and must take care of himself; if he did not, he must simply

suffer. Yet it is coolly proposed to allow associated Bankers the same freedom in so far as profit is concerned, to make mischief to the greatest possible extent, but to give them limitation in loss.

The Western Bank, and the Borough Bank of Liverpool have been doing an unsound and speculative business; so have very many private traders, and mercantile Banking Houses. That the latter ought to be responsible no one denies, and deeply though it may be regretted that the partners of ——— and Co., who might have been worth a million twelve months ago, come out of the disasters without a sixpence left, it is simply just. Is it otherwise than right that their creditors should be paid, even though every acre be sold for the purpose? ——— and Co. have been trading in competition with the Western Bank; both co-partneries have suffered, and both must pay alike. With renewed activity in trade and renewed profits, the present lesson will be forgotten, and the same or some similar game will probably be played over again. But it is proposed to provide some future Western Bank with the power of competing on a different footing. The Joint-stock is to be allowed, by making a declaration of Limited Liability, on a future crash, to come off by making only a limited payment, whilst ——— and Co. are to be sacrificed. What should we (the public) gain by this competition? We want prudence, forethought, and high moral responsibility in business, secured by pecuniary responsibility;—this it is proposed to lessen. The

argument I am aware is, that a new Western Bank being limited, would not have the credit, or power of mischief the former one possessed. But if men risking their entire means, have been so careless and speculative, what will they not do in the race of competition when the risk is limited to the paid-up share? A curious question suggests itself;—suppose the Western Bank had been a Limited Liability Company, would certain shareholders of great reputed wealth have come forward so readily, with offers of work and security? Was it a feeling of moral responsibility, or of unlimited liability, that compelled them?—is it not for the public good that they should so come forward? Will not the energy and capital secured to the Western Bank, be the very best means of preserving what property there is left to the shareholders and creditors?

A few words on the probable profits and prospects of Joint-stock Banks with Limited Liability. Supposing some three or four Banks, on the Limited Liability principle, with capitals of £500,000. each, were established in Glasgow, to take up the greater part of the Western Bank business, is it supposed those Banks would pay a decent dividend, not re-discounting, and confining themselves to a moderate business? They would not be as safe, of course, to depositors, as an unlimited liability bank; they would not therefore have the deposits; they could not therefore discount so profitably; they could not give the same rate of interest or of profit. Shareholders,

in fact, would prefer the unlimited risk with the extra dividend, as they may safely do, if, with common prudence, they will look after their own interest.

You will tell me, that whilst I am objecting to Limited Liability in Banking, I avoid referring to the risks arising from unlimited ones, and put the question to me, what I think of the nine London Joint Banks, holding deposits to the extent of upwards of £40,000,000. with a paid-up capital of only £4,000,000., and reserve funds amounting in addition to £680,000. My answer simply is, 6,000 shareholders, together with some thousands more who have transferred shares within three years, are *unlimitedly* liable to the extent of their entire property; and that if all, or any one of these Banks suspended, every creditor would be paid. The average dividends are very high; the price of shares is high, and the 6000 shareholders are very willing, evidently, to take the entire responsibility; should they be prevented? Whether it may not be the duty of the Legislature to require, as a precaution against a panic, and as a compensation for the large dividends these associated companies are able to pay, *by reason of the privilege granted by the Legislature*, some additional security, such as an investment in government stocks in some degree proportionate to their deposits, is a question I am not prepared now to discuss, though I may have opinions on the subject.

As regards Limited Liability Banks, whatever amount of paid-up capital they might have, supposing

them established in London, and holding £40,000,000. of deposits, I think the public would shudder at the risk, with nothing to fall back upon except a capital, fastened up it might be, to a great degree, in inconvertible securities. The said public is apparently very comfortable *now*, with the unlimited liability of six or eight thousand fully responsible shareholders, and the capitalist directors, connected with the London Joint-stock Banks. I do not think either that the security would be one bit better with the said £40,000,000. of deposits divided amongst double or treble the number of Banks. Small Banking establishments would not pay in competition with the larger ones, or even with private Bankers; and it is an admitted fact, that some further Joint-stock Banks would have been started now in London, except for the difficulty of finding experienced and responsible managers. Would Limited Liability Banks be safe, with limited intelligence for a smaller scale of business?

One further remark. It is proposed to give a sort of Limited Liability, by making each shareholder liable to be called upon for double the amount subscribed, as a reserve. This is nothing more than half the capital paid up, and a concession, to my mind, that Limited Liability is not in itself sound. The known fact of the probable reserve of capital, would be a borrowing credit, and would be considered by depositors as increased security no doubt, in a slight degree. If Limited Liability has any value, it must be in the

entire capital being paid up, and constantly shewn to the public (*if possible*) as intact. With the extra Liability attached to the shares, their value would be many times lessened in the eyes of the promoters of Limited Liability; they could not be pawned or deposited as security, because they would carry a liability with them.

However, I do not think it is worth while discussing the question modified, at all. Either the principle of responsibility is sound or unsound.

I have been led into these remarks, chiefly I admit, by the continuous series of ably written, though I think unsound articles in the *Times* newspaper. Now the *Times* has not been one whit more prudent in the tone of its previous articles, than we who have thought on and acted in commercial matters. The fact is, the public, and the leaders of public opinion are too apt to hail rapid expansion and high prices as a test of profit, without considering at the time, that both are swelled beyond legitimate bounds by unsound and overstretched credit, relying and based on the apparent security of continued expansion. The day of reckoning comes. No law can prevent individual competition, and individual expansion; periodical checks, healthy storms will come:—and what is the one remedy now urged most prominently, at the beginning and end of almost every monetary article in the *Times*?—Limited Liability.

Admitting the great amount of mischief that has

arisen in Joint Stock Banks, from the too large masses of capital and great means of credit which have been placed at the almost uncontrolled disposal of parties, in many cases entirely unfit for the trust:—what are we to think of the soundness of the following assertion in to-day's *Times*, (24th December, 1857,) as an argument for Limited Liability in Banking?—

“Trading by fictitious or doubtful bills having been the cause of all our recent commercial trouble, and the fact being proved that these bills are called into existence by the demand of the Joint-stock Banks, for some mode of employing the enormous deposits which, by offering the security of the unlimited liability of their shareholders, they attract from all quarters, it is easy to see that the question whether we are to have in a few years a repetition of the evil, depends entirely on the continuance of the existing law. The repute of the Western Bank of Scotland, the Liverpool Borough, and the Northumberland and Durham District Banks, had been doubtful for years, and every one knows that if their credit had simply depended on the character of their management, or the amount of their paid-up capital, they would neither have been able to entice deposits, nor to obtain rediscounts from the London money lenders. The facts that creditors for an aggregate amount of £16,000,000. sterling are now kept out of their claims; that about 2,000 shareholders are ruined or impoverished; that honest traders have for the past seven or eight years been driven from the market; and that the commerce of the country has, to a great extent, been placed under the command of organized gangs of swindlers, must therefore be charged to the system which compulsorily invests such concerns with the power they possess.”

Now as to the facts, before we test the remedy. The *Times* itself, a few days previously, gave a list of failures, far from complete, amounting to about £50,000,000., including these Joint-stock Banks. I

should be disposed to add £10,000,000. or £20,000,000. to the amount. The creditors of the Joint-stock Banks, for their claims of £16,000,000., no doubt will be paid 20s. in the pound. The probability is, that out of the remaining £50,000,000., the dividends will not be more than 6s. 8d. in the pound; and the loss to the public may be, in round figures, about £33,000,000. Is it then fair, to charge upon the Joint-stock system of unlimited liability in Banking, the cause of *all* our commercial troubles? The Bank debts, the *Times* quotes at £16,000,000., perhaps one-third lost. The plea for the law which is to prevent recklessness in all other kinds of Joint-stock trading, is now put forth in pity for the 2,000 shareholders, who have been literally bestowing no trouble, and very little thought upon their own partnership business;—for this thoughtlessness, and to preserve them partially harmless in future, the *Times* urges Limited Liability. I pity, just as much as the writer, the sufferings of those who are deprived of many comforts, even it may be the means of existence; but I differ widely as to the future policy suggested. I should like to see a public writer of such power, constantly warning those who depend upon fixed incomes,—all clergymen, widows, and single ladies,—against being deluded into the supposition that they can get extra profit (interest) without extra risk,—the result of work without labour. We have thundering philippics against grinding competition in trade. We are reminded of our grasping cupidity, of the sacrifices we make of health, comfort, refinement,

and what not for profit, not always fairly stated against us. We compete fairly, in the main soundly and honestly. We take our risk of loss. Let those just as anxious to mend their positions in life, be constantly reminded that it is but fair that they should run their concurrent risk. Tell this helpless class (helpless, I mean, as regards the knowledge of commercial means of competition) of this fact, this inevitable justice, and we should hear less of projected laws which, as they are meant to lessen risks for certain modes of trading, must inevitably lead by new modes to wilder speculations.

I remember hearing a proposition floated as to the probable success of a Joint-stock Speculation Company, formed under Limited Liability, and though I would certainly not take part in any such scheme, I believe it might succeed, and be very beneficial to the shareholders, but would be singularly hurtful to the public. It would, however, I think, show the *high morality* of Limited Liability. The proposition was as follows:—Let a company be formed with a paid-up capital of a million; choose as directors some half-dozen gentlemen and pay them well; let each be compelled to hold shares to the amount of £5,000.; give them for a twelve-months a despotic power of speculating as they liked in the boldest and most decisive manner;—they could only lose their £5,000. each, and their supporters only their limited shares. They might, with the knowledge and prudence and that decision which a small number can exercise, and with the power of real capital they

possessed, so play with the produce market in various classes of commodities, as to be able, I fully believe, to realize on the average large profits, though at times encountering losses. I believe such a scheme might pay the shareholders well, but the consequences would be severe loss to the private and responsible trader. The above is not a very moral suggestion you will say, but yet, to use the words of one of the ablest supporters of the Limited Liability doctrine—the Legislature by “permitting, encourages.”

We are told by the leader of public opinion, “that fictitious and doubtful bills called into existence by the demand of the Joint-stock Banks, have been the cause of all our commercial trouble.” The remedy is to be found, as he thinks, in the curtailment of the power of these Banks; not by a more thorough responsibility and forethought, induced by suffering and experience, on the part of those who share the profits and give power to the directors of these establishments, but by a lessened responsibility upon the shareholders, and by what the writer fancies would be a decreased power in the hands of the directors for mischief. And yet, strangely enough, he has admitted that the directors of even Limited Liability Companies have, as a rule, treated their constituents with thorough contempt. So it would be in Banks, and with a freer field for jobbery and plunder, for no responsibility would be required except the ownership of a few shares, perhaps five hundred pounds’ worth, readily pawned like railway scrip, as carrying no liability. With this amount of capital,

Mr. A. B. becomes chairman, deputy-chairman, or influential director of a Bank with a paid-up capital of half a million,—and fool or worse though he might be, who could turn him out, even though the best man in Europe were ready to take his place? Boards of directors are very tender as regards each other; how few instances have occurred of changes being made from within the directory for the benefit of the shareholders, or at all, excepting when the dividends were actually nothing! Surely then, it is a move in the wrong direction to hint at lessened responsibility as a remedy for the errors, careless and moral, connected with Joint-stock management. "Joint-stock Banking Companies have been the cause of all our present commercial troubles," says the *Times*; those of us who are a little behind the scenes and who have some knowledge of these matters, hardly think so. We admit the large share of mischief done by some of the Joint-stock Banks, and even think that the Bank of England might have held her own, and that her Majesty's Ministers would not have suggested the suspension of the Bank Charter,—which act might still have been considered a very fair and serviceable working act and have needed no alteration, even if it do so now,—had it not been for the mismanagement and reckless trading of the Western, and two or three other Joint-stock Banks. Without their aid, however, merely as the result of too rapid expansion, and great competition, we should still have had a crisis upon us, not so severe perhaps, about this period; it could not have been long deferred, and is a natural consequence of over-trading.

With America still as an example and competitor, and with a trade in exports and imports between us of about £50,000,000. per annum, she, with her paper, her Joint-stock system, and her long-credit bill system—too deeply rooted to be eradicated,—will aid us to another panic. Forewarned, we should cling to a convertible currency—a metallic basis—a single bank of issue, and as short-dated bills as compatible with the distance of the markets we deal with. Then, with thorough responsibility, moral and financial, we shall preserve our position as the leading merchants and manufacturers of the world, and our credit will be better prepared for a financial pressure.

Yours truly,

EDMUND POTTER.

MANCHESTER, *January 9th*, 1858.

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THE OWEN-GLASS BILL  
AS SUBMITTED TO THE  
DEMOCRATIC CAUCUS

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SOME CRITICISMS AND SUGGESTIONS

BY

PAUL M. WARBURG

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## THE OWEN-GLASS BILL AS SUBMITTED TO THE DEMOCRATIC CAUCUS

### SOME CRITICISMS AND SUGGESTIONS

BY PAUL M. WARBURG

Now that we have before us the Owen-Glass Bill in the definite form in which it has been submitted to the Democratic caucus, it may be interesting dispassionately to analyze it and to establish where it differs from and wherein it agrees in the main points with the bill of the Monetary Commission.

It is a source of great satisfaction to note that, as the Republican party had to outgrow and to abandon its old doctrine of "currency issued by National Banks against Government bonds," so the Democratic party had to relinquish its old heresies of the 16-to-1 silver standard, the guarantee of deposits, etc. Both parties are now agreed that reform must provide for "a currency"—to use President Wilson's own words—"not rigid as now, but readily, elastically, responsive to sound credit, the expanding and contracting credits of every-day transactions, and the normal ebb and flow of personal and corporate dealings."

There is a further and even more important progress. Both parties have now recognized that it is not the "currency" which is the exclusive or even the chief factor that needs reform, but that, indissolubly interwoven with this question is the problem of rendering available and efficient the now immobilized reserves of the country, and of mobilizing and modernizing the now illiquid American bills of exchange by creating a "discount market" and "bank acceptances."

Both parties are thus in agreement as to the ends to be striven for; more than that, they are agreed even as to the technical means by which they must be attained.

Accordingly, both plans provide for concentration of reserves, for the creation of an organization for the purpose of rediscounting commercial bills, for the substitution of an elastic note for the present National Bank currency, and for a conversion of the 2-per-cent. Government bonds into 3-per-cent. bonds.

The country is to be congratulated upon seeing these theories and principles clearly established; it remains the nation's duty conscientiously to watch that the aims now proposed by both parties be carried into effect in the best possible way, and that they be not lost through ignorance, prejudice, or considerations of party policy. Where there is agreement as to the fundamentals, it should not be impossible to reach an accord as to the means, provided they be honestly sought for.

There were five main criticisms of the Monetary Commission's plan, and it is chiefly on these points that the Owen-Glass plan differs from its predecessor.

Mr. Aldrich's critics claim:

1. That there is too much concentration of power and that this power is placed almost entirely in the hands of the banks or their representatives.

2. That a uniform discount rate for the whole country would not be practicable.

3. That the size of the balances to be kept by the subscribing banks with the National Reserve Association is not defined.

4. That the National Reserve Association, after taking over all the 2-per-cent. Government bonds, is not sufficiently protected, because, although it would assume the responsibility for the entire National Bank note issue, it would be prevented from selling the United States 3-per-cent. bonds in case of emergency (except \$50,000,000 per annum and that only after five years).

5. Finally, it is claimed that currency should be issued only by the Government of the United States and not by a semi-official body.<sup>1</sup>

As to point 1, the writer partly agrees with these critics; as to 2, 3, and 4, he entirely agrees; as to point 5, however, he totally disagrees with them.

<sup>1</sup> This article does not aspire to be a comprehensive criticism of the Owen-Glass bill in all its details, but has for its purpose the discussion only of these main points.

Let us analyze each point consecutively:

The Monetary Commission's plan proceeded on the theory of the Bank of England, which leaves the management entirely in the hands of business men without giving the Government any part in the management or control. The strong argument in favor of this theory is that central banking, like any other banking, is based on "sound credit," that the judging of credits is a matter of business which should be left in the hands of business men, and that the Government should be kept out of business. The Aldrich plan, therefore, provided for only a moderate amount of Government control; but on the other hand it restricted the powers of the Central Board and the scope of the branch boards to such a degree, and it proposed so democratic a system of electing directors, that its author hoped to satisfy the nation that the concentrated reserves of the United States and the note issue would be safe in the hands of this National Reserve Association. The Owen-Glass bill proceeds, in this respect, more on the lines of the Banque de France and the German Reichsbank, the presidents and the boards of which are to a certain extent appointed by the Government. The writer is inclined to think that the latter form is the one better adapted to modern nations. These Central Banks, while legally private corporations, are semi-Governmental organs inasmuch as they are permitted to issue the notes of the nation,—particularly where there are elastic note issues, as in almost all countries except England,—and inasmuch as they are the custodians of practically the entire metallic reserves of the country and the keepers of the Government funds. Moreover, in questions of national policy, the Government must rely on the willing and loyal co-operation of these central organs. Much is therefore to be said for the theory of centralizing reserves and note issue in the hands of a semi-official private corporation under a mixed administration of business men and Government appointees, the managing officers being appointed by the Government.

In strengthening the Government control, the Owen-Glass bill therefore moved in the right direction; but it went too far and fell into the other, and even more dangerous, extreme.

In France and Germany the Central Banks are entirely free from any sectional or political color; an officer is appointed on the strength of his qualifications, generally after

a long training and gradually rising in rank; a director is elected on account of his standing in the business world; all irrespective of their political faith, and they will remain in office according to their merits and independent of whether the liberal or conservative party be in power.

In our country, with every untrained amateur a candidate for any office, where friendship or help in a Presidential campaign, financial or political, has always given a claim for political preferment, where the bid for votes and public favor is ever present in the politician's mind, where class prejudice and antagonism between East and West and North and South run high, in a country so different from these European states, a direct Government management, that is to say a political management, would prove fatal. Moreover, in Europe the banks are not required to furnish the capital of the Central Banks, nor are they obliged to keep balances of such size as will be necessary with us, where the banks and the Government will be the only depositors of the Federal Reserve Banks. The banks, therefore, should be satisfied that the administration will be carried on without bias and upon sound business principles. There can be no doubt but that, as drawn at present, with two cabinet officers members of the Federal Reserve Board, and with the vast powers vested in the latter, the Owen-Glass Bill would bring about direct Government management.

The Owen-Glass Bill provides for the creation of twelve Federal Reserve Banks as against the one National Reserve Association, with fifteen branches, as proposed in the Aldrich Bill. The National Reserve Association is theoretically the simpler, sounder, and, in effect, the more efficient structure. The freest possible return of idle cash into one large reservoir is best assured by a single organ, and its larger strength and uniform policy render feasible the creation of a real discount market and the performance of other functions, such as accumulation or disposition of foreign bills, gold transactions, etc., which are necessary for the safety of the structure.

Moreover, as we shall see later, a single organ of vast strength is in a position to solve in a more effectual way the question of Government bonds and note issue. Messrs. Owen and Glass were moved to adopt the Federal Reserve Bank system, not only because Senator Aldrich had adopted the other, but because the absolute centralization frightened

a great many who are afraid that in some way or other "Wall Street" might secure the key to this great chest. Although, in the writer's opinion, this apprehension was unwarranted, still this fear existed and had to be taken into account. Moreover, it was thought impossible to have one discount-rate govern the whole country; and justly so.

In dividing the country into separate districts, each having its own Federal Reserve Bank and its own rates, it was hoped to counteract the danger of centralization of power and to render each district independent of the other. It seems that the framers of the law were in the beginning impressed with the idea of creating from twenty-five to thirty such centers, or even a larger number. The longer they dealt with this question, however, the clearer it became to them that the number had to be reduced and, furthermore, that some way had to be found to co-ordinate these separate entities, or rather to subordinate them under the domination of one central power.

It is clear that, if a large number of separate Federal Reserve Banks should be created without any such superimposed organ, instead of having a free back flow of idle cash into one center, we should have competitive hoarding of gold at each central point. This would destroy the basic principle of the plan, which is that the reserves of one part of the country, where there would not be any seasonal demand, should be available for the other, where crops might just be moving. Without a central organ the result would have been that these independent and weak Federal Reserve Banks would have had to depend on the strongest among them for assistance. In other words, New York would have become the center dictating the country's financial policy, instead of having it formulated and carried out by a body of men from all parts of the country, as under the Aldrich plan.

It became apparent then: First, that the number had to be reduced in order to make the units larger, and thereby more independent; and, second, that it was necessary to co-ordinate these units under a Central Board. Thus the number was reduced to fifteen, and later on to twelve, and the Federal Reserve Board was created. While these moves were in the right direction, they did not go far enough, for the proposition as it now stands is not as yet a practicable one. Let us see how it would work.

As an illustration we shall assume that a Federal Re-

serve Bank is established with the minimum capital, permitted under the law, of \$5,000,000 paid in, that is a nominal capital of \$10,000,000. This would presuppose a paid-in capital of the banks constituting this Federal Reserve Bank of \$50,000,000. Let us assume that the deposits of these banks would amount to five or six times their capital, that is, \$250,000,000 to \$300,000,000. Of these, 5 per cent. would have to be paid in as balances with the Federal Reserve Banks, that is \$12,500,000 to \$15,000,000. Of these it should normally have no less than 66 2-3 per cent. in reserve, equal to \$8,000,000 to \$10,000,000, leaving about 10 per cent. of the capital of the constituent banks, or \$4,500,000 to \$5,000,000, as available in normal times, and an additional 10 per cent. for special demands; after which the limit of a gold reserve of 33 1-3 per cent. would have been reached. This illustration presupposes that the banks, having paid in 10 per cent. of their capital, would want to reimburse themselves by rediscounting an equal amount with the Federal Reserve Bank, which means that the capital of the latter would be normally invested. But assuming that the capital would be uninvested, the total amount available for the accommodation of the constituent banks would even then be only 30 per cent. of their capital.

This permits of several conclusions: it shows, first, that while the Aldrich plan left entirely optional with the banks the size of the balances to be kept with the National Reserve Association, permitting them to count both balance and lawful money in their vaults as reserve, the Owen-Glass Bill, while correctly stipulating a minimum balance of 5 per cent. of the deposits, errs in setting at the same time a minimum limit also for the amount of actual cash to be kept in the vaults of the banks. From the point of view of strengthening the Federal Reserve Banks, and thereby the banks themselves, the balances with the Federal Reserve Banks, that is their cash holdings, ought to be increased as far as possible. The banks ought to hold only as large or as small an amount of actual cash as they actually need for their daily business, and all unnecessary cash should be deposited with the Federal Reserve Banks. Allowing for an ample supply of till-money, but leaving the determination as to its size to the free judgment of the banks, it is safe to estimate that the aggregate gold holdings of the joint Federal Reserve Banks could be increased

by some \$200,000,000. The joint loaning power would thereby be strengthened by twice that amount. In estimating this increase it has been assumed that an amount equal to at least 2 1-2 per cent. or 3 per cent. of the aggregate deposits could be safely counted upon. In our illustration this would mean that about \$7,500,000 would be added to the funds of the Federal Reserve Bank, of which \$2,500,000 normally, and a maximum of \$5,000,000, would become available for the contributing banks; which would increase the total to 40 per cent. of their aggregate capital. The very object of the law should be to reduce to the smallest possible sum the amount of cash hoarded in the banks and to increase to the largest possible size the concentrated reserves in the Federal Reserve Banks. But it would be a mistake to attempt at this time to do more than to free and to consolidate the cash reserves, now wastefully impounded in the banks. It would be inadvisable to add to these vast sums substantial portions of the cash balances now kept with reserve agents as part of the legal reserves. These balances are now actively employed by the Reserve and Central Reserve Banks; if withdrawn from these banks and replaced by actual cash in vaults, or by balances with the Federal Reserve Banks, the accommodation, heretofore granted to the community by the Reserve and Central Reserve Banks, will have to be provided by the Federal Reserve Banks. That is to say: the regular business done by the banks will have been taken away from them, and the Federal Reserve Banks, which properly should act primarily as reserve institutions, providing the elasticity for extraordinary demands, will have been forced into the normal business, from which they should try to keep away.

Unless it be clearly understood by legislators and banks that the Federal Reserve Banks must not be used in normal times to finance the country to any substantial degree, the latter will fail to serve their purpose, because their funds would not be available when the real "pinch" came.

The balances with reserve agents should therefore be left undisturbed to a certain extent, or if we are to break with the old system of counting one bank's balance with another as a cash reserve, on the ground that such balance really is not cash, then we must concede that our system, as it stands to-day, implies a reserve of only 6 per cent. for country banks, of 12 1-2 per cent. for Reserve City Banks, and of 25 per

cent. for Central Reserve City Banks. It is with these actual cash reserves that the nation's banking business has been done, and, if properly organized, we can safely assume that they would be sufficient. No other nation requires cash accumulations or balances with Central Banks of such size.

If the new law eliminates these bank balances as reserves, it ought to provide for a corresponding reduction of the reserve requirements; not to the full measure of these bank balances, because a certain degree of liquidity was assured by the old system, but to a large extent.

It would appear entirely practicable to reduce the reserve requirements of the country banks from 15 per cent. (of which 6 per cent. were in vaults and 9 per cent. with reserve agents) to, let us say, 10 per cent.; of the Reserve City Banks from 25 per cent. (of which 12 1-2 per cent. were in vaults and 12 1-2 per cent. with reserve agents) to 17 per cent.; and of the Central Reserve City Banks from 25 per cent. to 20 per cent.<sup>1</sup> The law should then provide that of these reserves a balance of no less than 50 per cent. would have to be kept with the Federal Reserve Banks. This would mean a minimum of 5 per cent. for country banks, of 8 1-2 per cent. for Reserve City Banks, and of 10 per cent. for Central Reserve City Banks. The writer has, however, no doubt that the balances would in fact be much larger, because there would not be any reason for the banks keeping more cash at home than they actually need for their daily business. On the other hand, the size of the balances generally kept by a bank with the Federal Reserve Bank—and thereby for the benefit of the entire community—would have some bearing on the consideration which, in case of need, may be claimed from the Board of the Federal Reserve Bank. But whether this suggestion be adopted or not, there can be no doubt whatsoever that nothing can be gained by impounding an unduly large amount of cash in the vaults of the individual banks, or by unduly locking up their now free funds. If properly consolidated and organized, the present cash reserves ought to prove sufficient; if linked together in an unsound and inefficient manner, the inclusion of the bank balances will not avail. If, after a few years of active operation, it should become necessary to increase the balances, the law can be

<sup>1</sup> Provided there are only a few Central Reserve cities; if there were more than four or six there would not be any justification in requiring them to keep reserves so much larger than the other cities.

easily amended to that effect. But it is most important to avoid all unnecessary convulsions at the beginning.

As the law is now framed our illustration has shown that probably eight out of the twelve Federal Reserve Banks, thrown back on their own power alone, would not be able to provide the necessary facilities during seasonable or abnormal demands. The smaller the circle for each Federal Reserve Bank the more acute would be its embarrassment, because the demands of its constituent banks will be simultaneous, the dominating industries of the region not being sufficiently varied. The larger the circle of each Federal Reserve Bank, the stronger must be its own intrinsic power.

But even with larger units than are provided by the Owen-Glass Bill, the law would not achieve its purpose unless it would ultimately bring about a market for bills and bank acceptances and a free and natural interplay of reserves between the various centers. The business normally done by Central Banks must be only a fraction of the aggregate discounting done by the general banks, banking firms, corporations, large and small, and in particular by foreign banks and governments. When the cotton crop is to be moved, not only the Southern Federal Reserve Bank or Banks must provide their limited share, but the local banks in those parts of the country where money is not in as strong a demand during that season should be ready to buy Southern bills. In doing so they would rely on their own ability to rediscount in turn their own short maturities with their Federal Reserve Bank or depend upon the broad market for discounts, in which they could, in case of necessity, resell these bills with their own indorsement. Can such a market, which is an absolute prerequisite for the safety of the entire structure, be developed with a system of twelve Federal Reserve Banks as now proposed? The answer is a most unqualified "No!"

The basis of a discount market is confidence; confidence in its large absorbing power and in its reasonable rates. By "reasonable" I mean to imply rates that can be foreseen by "reasoning," by summing up all the natural influences,—and the extraordinary ones too,—that may contribute to shape money rates in a rising or falling direction. Both these elements would be lacking under the Owen-Glass plan. With twelve discount rates (even though a good many might be generally the same), with twelve competing centers, with

twelve, conceivably, different discount policies, a large discount market cannot develop. A market develops where purchasers and sellers meet. Locally the majority of the small finance centers will be purchasers; but, as between the various centers, they will on balance almost invariably be sellers. No open discount market will therefore develop in such smaller centers. It could, however, develop in the large centers like New York, Chicago, St. Louis, Boston, Philadelphia, etc., if it were not for the arbitrary powers vested in the Federal Reserve Board.

If, at these large centers, the banks could rely on a *natural* development of the discount rates, they would not hesitate to invest freely in bills instead of keeping their working reserves (not the legal ones) in "on call money"; but what means have they to cast any reasonable prognostication as to the course of such rates? The New York Federal Reserve Bank's position may be very strong and the Federal Reserve Banks at Boston and Chicago may be in an equally good condition. Eastern banks might therefore be quite willing to buy Southern paper at 5-1-2 per cent. while the official Bank Rate of the Federal Reserve Bank at New York presumably might be at 5 per cent. and that at New Orleans at 6 per cent. But here comes the Federal Reserve Board and issues its edicts that the Federal Reserve Banks of New York rediscount \$10,000,000 each from the Federal Reserve Banks at New Orleans, Seattle, Kansas City, or, perhaps, Denver, Salt Lake City, Minneapolis, or Duluth. To what extent these requirements will be made and on whom they will be made, whether on New York, Chicago, or Boston, no banker will be able to foretell, nor will anybody know to what points the money may be directed. In the face of such conditions the call-money market will remain the stand-by of the banks; for they will not incur the risk of investing in discounts while the discount rate, instead of developing according to the natural free flow of credit and money, jumps according to the whim of a largely political body. With an election coming—and an election is always coming in the United States—how strong a probability is there that a demand from Seattle or Dallas (be they over-extended or not) for money from the East will be refused? How strong a probability is there, in the face of some political agitation, that a depleted New York would receive money, even were it its own, from the South or the Far West? And even

if the majority of the men constituting the Federal Reserve Board were entirely free from political considerations (which they cannot possibly be because some are political officers and owe it to their party not to disregard the political aspect of the case), what training, what ability would they command to pass upon these business and banking questions so as to enable them actively to run the banking business of the entire country? For not only is the discount rate of each Federal Reserve Bank "subject to review" by the Federal Reserve Board; not only has this Board the power of throwing the reserves from one part of the country to any other part that it pleases; but the Board will fix at its own discretion the rate at which "Federal Reserve notes" will be "advanced" to the Federal Reserve Banks. To this latter question we shall have to revert later.

While it is true that, by the addition of the Federal advisory council, a very commendable improvement has been made, because through it the Federal Board will have an opportunity of at least learning facts concerning general conditions which otherwise it could not possibly know (though it remains entirely optional with the Federal Board to act on these facts, or rather upon local or political pressure); while it is true, furthermore, that the arbitrary powers of the Federal Board have been somewhat "toned down," none the less, the proper working of the entire system will depend upon the wisdom with which the Federal Board exercises its functions, in particular that of "permitting or, in time of emergency, requiring Federal Reserve Banks to rediscount" paper of other Federal Reserve Banks.

It has been argued with great insistence that the Federal Board should not be clothed with the power of "requiring Federal Reserve Banks" to rediscount for each other; but it is the weakness of the entire plan that without such power lodged in some group of men the whole structure would fall to the ground. With twelve Federal Reserve Banks the *permission* to rediscount for each other is a theoretical option of which they would hardly ever avail themselves. If the Federal Reserve Bank of New Orleans should happen to have a bank rate of 6 per cent., against rates of 5 per cent. in the majority of the other zones, and if the Federal Reserve Bank of New Orleans became crowded, facing the necessity of increasing its rate to 7 or 8 per cent., what

would happen? Would New England or Pennsylvania or Chicago or New York of their own accord apply for permission to grant a loan? If money should be plentiful in these regions, the boards of these Federal Reserve Banks could argue that their individual constituent banks should take as much paper from the New Orleans banks as they would think safe and good business, but they would not for a moment consider it wise or incumbent upon themselves to weaken the reserve power of their own Federal Reserve Bank for the benefit of the New Orleans Federal Reserve Bank, shouldering thereby a burden which would otherwise fall on the remaining ten Federal Reserve Banks. In order to avoid the semblance of a Central Bank, the structure has been torn into twelve separate entities; but as the majority of these units are unable to stand alone, and as safety lies in union only, there must be some arbitrary power to take the place of the links that are missing in the structure. The further decentralization has gone, where centralization is the end to be sought, the vaster and the more arbitrary those powers must be.

With twelve units, for the deliberation and co-operation of which among each other the law does not contain any provision—excepting the advisory council, which may advise the Federal Board but may not act—the initiative and executive power for any joint or individual action between these Federal Reserve Banks must rest solely with the Federal Board.

This is most unfortunate, because for these seven outsiders, who constitute the Federal Reserve Board—outsiders because, living in Washington, they all stand outside of active business and they cannot possibly ever be in direct touch with the same—it is a problem beyond any man's power to decide wisely which of these twelve Federal Reserve Banks is to receive a rediscount and which of the remaining eleven, and in what proportions, shall grant the same.<sup>1</sup>

<sup>1</sup>The law provides "that the interest charge to the accommodated bank (we take this to mean the accommodated Federal Reserve Bank) shall be of not less than one nor greater than three per centum above the higher of the rates prevailing in the districts immediately affected." This must be a mistake. If New Orleans's "Bank Rate" is 7 per cent., its Federal Reserve Bank can only take discounts at the uniform rate of 7 per cent.; why then should it sell its assets at 8 per cent. or 10 per

There will, therefore, be no natural flow of reserve money, nor any free flow of money, into these disconnected discount centers. Important open discount markets will not develop; because neither Europe nor the large American banks will trust a system of this kind, which does not insure a sufficient mobility for commercial paper. Consequently the banks will not be enabled to dispense with their present habit of keeping a substantial proportion of their assets in loans "on call." For the sake of creating some provincial centers, which will be centers only by name, and which, standing alone, will not be able to provide the needed relief, the efficiency of the whole system will have been sacrificed.

But while a system of twelve Federal Reserve Banks will prove a failure, it will be well-nigh an impossibility to reduce the number later on. It is difficult to withdraw privileges once granted, even though their elimination would be of general benefit. On the other hand, it would not be hard, at any time, to increase the number, if this should prove advisable later on. Meanwhile, under a system of a small number of Federal Reserve Banks, discount markets would have developed, and the nation would have an opportunity of judging itself whether or not those were true prophets who predicted that the "discount market" would remove the concentration of money on the Stock Exchange, and whether or not the fear of a "tyranny of credit" will survive under the new system.

There are further phases of this problem that we must consider:

The Owen-Glass Bill contains elaborate provisions for the development of bank acceptances and for dealing in foreign exchange. Both provisions are most appropriate, for without creating an effective machinery covering these two items the law would not achieve its aims.

If we want to finance our own foreign trade, if we want to establish a standard banking paper with a large market at home and abroad, great pains must be taken to develop these

cent. in order to accommodate at 7 per cent. some banks, conceivably those that have expanded too much? If the Federal Reserve Bank of New Orleans can borrow only at 8 per cent., its bank rate should be not only at least 8 per cent., but rather higher in order to keep down the expanding banks of the region and in order to draw money into the dry district from other banks of the United States or Europe.

bank acceptances (not only those of subscribing banks, but also of our private firms; for the banks alone could not provide all the necessary facilities). The accepting bank receiving a commission of between 1-4 per cent. to 1-2 per cent. for giving its three months' acceptance, the discount rate for bank acceptances will have to be about 1 per cent. to 1 1-2 per cent. lower than the rate for single-named promissory notes. Though it would be better business for the Federal Reserve Banks to buy 45-days paper at, let us say, 5 1-2 per cent., they will have to make it a point to have a private discount rate for bank acceptances of, let us say, 4 per cent. This private discount rate must meet the English, French, and German rates in the world's market, and, unless the Federal Reserve Banks make special efforts to make the American rate reasonably low, no American bank acceptance will take the place of the European ones, no matter how many foreign banks may be established under the American flag.

Which of the twelve Federal Reserve Banks is to carry this burden? They all will want to earn their 5 per cent., for which the margin does not appear to be very large as the bill is drawn at present, and they all will strive to make the surplus earnings beyond 5 per cent. as large as possible, since they are to receive 40 per cent. of such excess. There are several reasons, however, why the 5 per cent. dividend is not as amply assured as it was under the Aldrich plan: (1) under the latter plan, the Treasury money was deposited free of interest, while under the Owen-Glass Bill interests are to be allowed to the Treasury; (2) under the Aldrich plan the profit on over \$700,000,000 National Bank notes, which were to be assumed by the National Reserve Association, and the profit on any further note issue, was to go to the National Reserve Association. Under the Owen-Glass Bill the Federal Reserve Banks will have to pay interest on the notes to the Government, so that it may not be sure that any profit will be derived by them from this source. While the National Reserve Association's profit was limited to 5 per cent., the balance going to the Government, the margin was so large that all transactions which were to be done, for the public welfare, with small profit or even at a loss, could be carried out without encroaching on the 5-per-cent. dividend. It is a fair question whether, in view of these conditions and considering the vast

powers of the Federal Reserve Board to interfere with the profits of the Federal Reserve Banks, the Government should not guarantee a minimum return to the stockholding banks,—let us say 4 per cent. as maximum and minimum,—and permit the banks to dispose of their stockholdings at their pleasure, selling the stocks to them above par, and using the premium for the establishment of a surplus fund.<sup>1</sup>

If we review our considerations at this point, we find that the result of the division of the country into twelve Federal Reserve Banks, under the Owen-Glass plan, would be the destruction of a reliable and strong discount market, the weakening of the reserve power of the country, the undoing of the hope of developing on a broad basis the American bank acceptance, and the sacrificing of a strong and efficient foreign-exchange and gold policy. On the other hand, while all these advantages of a frank centralization have been lost, the Owen-Glass plan cannot avoid the same degree of centralization which, however, it brings about by conferring autocratic powers upon a small group of men. And because the technical decentralization into twelve units has gone too far, the individual powers, which are to take the place of the well-knit links of a single organization, must necessarily be too far-reaching. They become a danger to the whole structure and, at the same time, to those who are to be the responsible officers of the Federal Reserve Board.

The remedy is a simple one. If the framers of the Owen-Glass Bill, continuing in the same direction in which they have moved up to the present, will further reduce the number of the reserve centers, the very serious objections to the present law may easily be eliminated.

In the writer's opinion a system of four Federal Reserve

<sup>1</sup> The plan of permitting the Federal Reserve Banks to participate in any profit secured in excess of 5 per cent. does not appear to be sound. It would act as a stimulus toward activity and money-making, where the main duty of these Federal Reserve Banks must be conservatism, and a strong tendency to remain in reserve without any consideration of sacrifice of profits.

It would be better to allow the stockholders a return of 5 1-2 per cent. or 6 per cent., under a liberal system that would permit them to earn this dividend even with the greatest conservatism, than to permit them a share in the excess profits under a narrow system that would rather force them to do business in order to be quite sure of even their 5-per-cent. dividend.

Banks, with centers at New York, Chicago, St. Louis, and San Francisco, with a Federal Reserve Board at Washington, would under the circumstances form the best possible solution. If it be objected that by such a division New York, which would include New England, would become too strong, a system of six Federal Reserve Banks would still be practicable, though less safe and efficient. Any larger number the writer strongly believes to be pernicious. It may be well to bear in mind that with any further increase in number of the Federal Reserve Banks, New York's weight could not be much reduced, and the larger the number of the Federal Reserve Banks, the more acute will become the disproportion of New York's power as compared with that of the other centers.

Let us contemplate now how a system of four or six Federal Reserve Banks will meet the various difficulties that we have discussed. For simplicity's sake we shall discuss a system of four Federal Reserve Banks, but if six should be decided upon, the argument, though weakened, will still remain the same.

A system of four Federal Reserve Banks would offer to the people a guarantee that New York could not in any way have any direct influence upon the management of the banks in the other parts of the country. (The New York Federal Reserve Bank would embrace New England, New York, New Jersey, Pennsylvania, Delaware, Maryland.) The country would be as safe in this respect as it would be under a system of twelve Reserve Banks. On the other hand, what have we gained? The accumulations of reserve money would be so strong in each of the four centers that a sectional, seasonable demand could be readily taken care of; all the more because with four large units, four powerful administrations with a distinct and strong policy, important discount markets will develop. We should then have a real concentration of reserves and a real mobilization of credit. As to bank acceptances, foreign exchange, government bonds and note issue, these four Reserve Banks could agree upon a joint handling of these (perhaps for a joint account to be based upon the capital of each Federal Reserve Bank). Four large concerns will be able to agree upon a disinterested policy; twelve local Federal Banks, with unequal powers, and naturally more selfish interests, never will. The idea prevails among some critics, that twelve centers will

take better and fairer care of the country than four. This idea is unfounded. The reverse is the case. The question of the branches of the National Reserve Association and of the Federal Reserve Banks has, in the writer's opinion, never been sufficiently considered in detail. If a free system of transfers from one part of the country to the other is to be established, if balances with Federal Reserve Banks are quickly and easily to be created and used for the purpose of clearing, then all important cities must have branches and all minor cities must at least be within easy reach of a branch. It will be impossible to establish an effective system of transfers of balances with twelve zones, within the boundaries of each of which the easy transfer would remain confined. There are between sixty and seventy cities now that are entitled to branches, or where branches are necessary to cover certain sections. Let us take cities like Cincinnati, Cleveland, Toledo, Columbus, Indianapolis, Detroit, Milwaukee, Minneapolis, St. Paul, Duluth, etc. They all would be entitled to branches, and they all could be branches of Chicago. If we were to pick out one of these and make it a Federal Reserve Bank, the others, almost equal in importance or possibly superior, would fare poorly by becoming tributary to, and dependent on, an organization weaker than Chicago. But this must happen with twelve centers. Moreover, it is hard to imagine that a Federal Reserve City should not become a Central Reserve City. To create twelve Central Reserve Cities would defeat the very idea of Central Reserve Cities; we need not enlarge upon that thought,—but with twelve Federal Reserve Cities we could hardly escape that necessity. By adding San Francisco to the list of the existing three Central Reserve Cities the question might be solved without difficulty with a system of four centers.<sup>1</sup>

<sup>1</sup>With four Federal Reserve Banks one could imagine that each Federal Reserve Bank city would become a Central Reserve City, each city where there would be a branch (and only those) would become a Reserve City. If the accumulation of reserve money with reserve agents is to cease, the main motive in the determination of Central Reserve and Reserve Cities will have been eliminated. On the other hand, the position occupied by a city in the organization of the Federal Reserve Banks will become a very important factor, and inasmuch as there will be a certain concentration of business wherever there will be a branch or a head office, it may be logical to require banks in these centers to contribute in a more substantial degree to the reserves of

If six centers must be created, we must suppose that New Orleans and some other city, presumably Boston, would have to be added. (But, again, the South, grouped around New Orleans, will be less efficiently provided for than by grouping a larger Southeast around St. Louis. Even New Orleans itself would fare better as an important branch than as a comparatively weak Federal Reserve Bank.) In other words,—to use again our old metaphor, often employed in the last six years,—in order to procure fire protection for the entire community we must provide faucets in as many places as we possibly can (*i.e.*, the branches), but we must concentrate the water so that we may have enough for any emergency. If we cannot concentrate all the water into one central reservoir, let us at least see to it that there will be only a few and large ones. Small reservoirs will quickly run dry, thereby creating consternation, and any other small reservoir, that may be drawn upon, will quickly show the effect, again causing anxiety and, as a consequence, an increased demand. Large reservoirs can stand a drain without an alarming drop of the gage and, if interconnected, they can assist one another without much sacrifice and without creating any convulsion or alarm. Twelve interconnected reservoirs would be a complicated system, inefficient in its results and to be handled only in the most arbitrary and haphazard way.

To insist on a large number of Federal Reserve Banks because, it is argued, reserves ought to be kept where they originate, is a selfish and narrow doctrine. For some charitable minds it may be a comfortable feeling of safety to see their neighbor's house burn down and to shut off from him their own water-supply. But when their own house happens to be on fire they may find some fault with such a system. Moreover, with the key in the hands of a board appointed by the President, they should be able to overcome this provincial point of view.

As to the organization of the four Federal Reserve Banks and the Federal Reserve Board, it would not be difficult, while preserving a similar machinery as now proposed in the Owen-Glass Bill, to begin by organizing the branch boards, which would be responsible to, and under the control of, the boards of the Federal Reserve Banks. The latter nation than the other banks which in the future would constitute the "country banks."

ter would be constituted from members of the branches, and some members would be appointed by the Federal Reserve Board. Each branch would have a manager to be appointed by the Board of the Federal Reserve Bank. Each Federal Reserve Bank would have a governor to be appointed by the President, from lists to be submitted to him by the Board of the Federal Reserve Banks, which lists the President might return, asking for a new set of names. These Governors would be first-class, expert men, who should receive large salaries in order to render them independent and in order to make the position an attractive one for men of the strongest caliber. The Federal Reserve Board should consist of these four governors, three additional members to be appointed by the President, and to these should be added the Governor-General to be appointed by the President in consultation with a committee consisting of delegates from the Federal Reserve Banks. It should not be difficult upon a basis of this kind to agree upon a constitution of the Federal Board satisfactory both to Congress and to the business community. The Secretary of the Treasury and the Comptroller of the Currency ought to be members of a Board of Supervision.

With units so large and a Federal Reserve Board thus constituted the powers of the latter may remain almost unchanged; but it is submitted, that it may not be necessary to destroy the independent character of each Federal Reserve Bank by making it obligatory for them to rediscount for each other at the request of the Federal Board. If there be only four Federal Reserve Banks, the heads of which are members of the Federal Reserve Board, at which they would meet one another, they may be relied upon to stand by one another of their own free will—in particular if they have to deal jointly with Government bonds, bank acceptances, foreign exchange, and note issue—and the law may be easily amended in case they should not.

In the writer's opinion Cabinet Members should not be members of the active board. It would be safer both for these officers and for the country if men whom duty toward their party compels not to neglect the political aspect of each case should be kept away from this post. Moreover, Secretaries resign, or, in the course of events, they change, whereas it is most important that the members of the Federal Reserve Board should gradually become experts like

the members of the Interstate Commerce Commission. There are no Cabinet Members on this latter commission, nor are there any on the Supreme Court, with both of which the Federal Reserve Board has been compared. Inasmuch as the Democratic party appears to have set its mind on exclusive Government control, the writer's proposition, as above outlined, bears fully in mind this prerequisite even though he may consider it extreme. The plan as here proposed would not allow a single member on the Federal Board not appointed by the President, none the less, but it would gain the confidence of the business community and overcome its objections, because the four Governors of the Federal Reserve Banks, who would be thoroughly familiar with actual banking and business conditions in their respective zones, would have an opportunity and duty frequently to confer with one another, and would have an important voice in the shaping of the policies of the Federal Reserve Board. The remaining three members would be free from any political pressure. The Democratic party's principles would have been fully respected, and yet grave dangers and defects would be avoided.

But, no matter what conclusion may be reached in this respect, and what form the Federal Board may take, the dangers and iniquities of Government management would materially be reduced by the establishment of only four Federal Reserve Banks. The more the Federal Board is called upon to deal only with composite bodies—that is, a number of varied elements massed together—the more it is protected from political pressure. The local demand would address itself to the Federal Reserve Banks; the Federal Reserve Board at Washington would only deal with questions of policy, applying to groups that would be so large that the divergent interests of the various component parts would in themselves eliminate any provincial color, helping the Federal Board to deal with its problems, without fear or favor, in an absolutely statesmanlike, unbiased way.

A structure of this kind would have the advantage, as against the Monetary Commission plan, that, while there would be among the four Reserve Banks one policy of expansion or of contraction, they could each adapt their rate to their own conditions, as against the uniform discount rate for all the country proposed in the Monetary Commission

plan. The Federal Board might even have power to permit a Federal Reserve Bank to establish a higher rate for a single branch, when it would appear necessary to curtail a particular over-expanding branch or community, without wanting to affect by a higher rate the entire zone of the Federal Reserve Bank.

A structure of four (or six) Federal Reserve Banks would offer the greatest advantage in dealing with the Government 2-per-cent. bonds and the note issue. With both of these features the Owen-Glass Bill deals in a most unsatisfactory way.

In the first place our currency is already redundant and we would begin with the existing maximum as the minimum, because National Bank Currency, based on Government bonds, does not materially contract. We would provide for a possible increase of \$500,000,000, though this limit has now been removed by law, but for a decrease only of \$35,000,000 for the first year. The entire National Bank Currency ought to be converted into elastic currency from the beginning. What do we gain by spreading this conversion of bonds and notes over twenty years? There is every argument for a prompt conversion.

The present proposition is unsatisfactory for both the Government and the banks. If we consider that within the last twenty years English, French, and German Government bonds have gone down about 20 per cent., anybody would be a bold man who would dare to foretell at what price United States Government 3-per-cent. bonds will sell within the next twenty years. If the United States should embark upon any national enterprise which would entail a material issue of bonds, the price certainly would go down. Should United States 3-per-cent. bonds sell below par, the National Banks would, of course, not convert. The National Bank note issue, in that case, would remain outstanding for twenty years, when the United States would have to sell a 3 1-2-per-cent. or possibly a 4-per-cent. issue to take the place of the old 2-per-cent. bonds. The present proposition, then, gives the option to the National Banks to convert in case the 3-per-cent. United States bonds sell above par, while, if they sell below, the United States will have to take the loss. This is a poor proposition for the Government; on the other hand, it is the minimum that, in fairness, could be offered to the National Banks.

The Aldrich plan proceeded on correct lines in converting the 2-per-cent. bonds all at once and in assuming the entire National Bank note issue. It went astray when it provided that these bonds were to be kept from the market for five years and were to be sold only at the rate of \$50,000,000 per year after that period. This meant that the National Reserve Association, having assumed over \$700,000,000 on-demand obligations, would have had its hands tied if it had been called upon to protect these liabilities—an unsound position.

The problem is not an easy one. If we imagine that after twenty years the National Banks would have disposed of all their bonds to the public, we must expect that, on the other hand, at that period there will be required at least the same amount of circulation as we have to-day (and more according to the increase in population). That means that Federal Reserve Currency will have been permanently substituted for National Bank Currency, let us say to the extent of \$700,000,000 to \$800,000,000. But currency cannot be issued without something having been given in return for it, which means again that, inasmuch as the Federal Reserve Banks would not own any Government bonds against these outstanding notes, they must have other assets to that extent—that is, mainly, commercial paper. It follows that, in addition to their own capital and part of their deposits, the Federal Reserve Banks would have *permanently* invested about \$800,000,000 in commercial paper, and to this we would then have to add the extraordinary and seasonal demands for which \$500,000,000 were estimated to be issued, a total of about \$1,300,000,000 to \$1,500,000,000. This would not be a healthy condition, for *normally* the Federal Reserve Banks should not be so deep in business, they should become such heavy investors in commercial paper only in times of active demand. It would therefore be desirable to find a way of investing several hundreds of millions of dollars otherwise than in commercial paper, provided that these assets would be safe and quickly salable. It is from this point of view that the following suggestion is made.

Let the four Federal Reserve Banks jointly assume the National Bank note issue and let them take over jointly, in proportion to their respective capitals, the 2-per-cent. Government bonds. Let the Government convert half of the amount so taken over into 3-per-cent. 20-year bonds, the

other half into one-year 3-per-cent. Treasury notes of the United States. As long as their charters last the Federal Reserve Banks would jointly bind themselves, whenever these one-year notes would mature, to buy at par the same amount of new one-year 3-per-cent. Treasury notes. The advantage of this plan is obvious. For the United States it is indifferent whether they issue a twenty-year bond or a one-year bond the renewal of which at par has been guaranteed for twenty years. But the position of the Federal Reserve Banks would be immensely strengthened thereby. For, in case the Federal Reserve Banks found themselves in a situation where they wanted to strengthen their position or create a balance in foreign countries, they could at once sell these short Treasury notes, if not on a 3-per-cent. basis, let us say, even on a 6-per-cent. basis. In serious times the loss incurred would not weigh heavily, because money at home would then be in strong demand and bring more than that rate. By such a sale the price for the long-term Government bonds would not be affected in anxious times, when these could only be forced on the market at great sacrifice and at the risk of tearing down the price of all other securities. On the other hand, these United States one-year Treasury notes,—which might be issued so as to mature half in January and half in July—would be a quick asset, a most suitable investment for the Federal Reserve Banks. With \$350,000,000 of such an investment it might be quite safe to preserve the holding of the remaining \$350,000,000 in twenty-year bonds. If it should be found that the available liquid means of the Federal Reserve Banks should be permanently increased, it can safely be left in the hands of the Federal Board to dispose of them gradually in favorable times and in quantities that the market will readily absorb.

While the Government, in following this suggestion, would continue to run the risk of having to renew the 3-per-cent. bonds at their maturity on possibly a 3 1-2-per-cent. or 4-per-cent. basis, it would on the other hand preserve its chance of securing the advantage of a sale of the 3-per-cent. bonds above par, in case the investment market should take a favorable turn. It would not grant a one-sided option. Furthermore, the profit on the circulation would from the beginning be received by the Federal Reserve Banks—that is to say by the Government—and the earnings of these Federal Re-

serve Banks would show an ample margin over and above 5 per cent., the importance of which we have already emphasized.

This presupposes that sound counsel will prevail, and that, in the face of the emphatic protest coming from all parts of the country, the framers of the Owen-Glass Bill will ultimately abandon their intention of letting the Government issue the new notes. One need not be a prophet in order to be able to foretell that this heresy will have the same fate as the 16-to-1 silver standard and the guarantee-of-deposit plan, and that after a few years people will wonder how they could ever have considered seriously so absolutely unsound a theory.

Though, as against its original form, Section 17 of the bill has been materially improved, it still remains a puzzle to the writer how, in practice and in theory, it will work out in any satisfactory way. Is there to be a uniform rate for the "advances" of these Federal Reserve notes? Or will the Government undertake to discriminate between various parts of the country? Is this rate to be different from the bank rate in the Federal Reserve districts?

Neither the constituent banks nor the Federal Reserve Banks, when granting accommodations, can know whether the ultimate customers will use this book-credit for the payment of book-debits (that is, by check), or whether it will be employed to discharge debts that cannot be paid by checks, and whether, consequently, notes will be required. Notes that have been issued to-day may again be turned into book-credits to-morrow. They are interchangeable, and, from the Federal Reserve Bank's point of view, they ought to be treated alike, both as deposit liabilities. To cut these functions in two, to attempt to let the book-credit and the note—twin brothers—be born by two different mothers, is a most anomalous proceeding. But, we must ask, how would it be possible at all for the Federal Reserve Banks to act boldly and comprehensively with their problems, if they cannot rely on being able to provide circulation as long as they are within the limits of the law concerning their cash reserves and collateral? While it is inconceivable that the Federal Board should ever refuse to grant an advance to a Federal Reserve Bank in sound condition, still this arbitrary power given to the board would be a menace, and an unnecessary source of weakness, to the whole structure. Moreover, is

it at all reasonable that a Federal Reserve Bank should not be in a position to figure what its investments in discounts will return? To illustrate: If a Federal Reserve Bank buys from the Sixth National Bank \$100,000 of 60 days' paper at 6 per cent., and the latter draws a check against this rediscount, the Federal Reserve Bank nets 6 per cent. If the Sixth National Bank, or its customer, should draw \$100,000 in notes, and if the Federal Board should charge 6 per cent. for "advances," the Federal Reserve Bank would not receive any return at all from the investment. Why punish the Federal Reserve Bank, and indirectly the people, for issuing a legitimate amount of circulation? If the Federal Reserve Bank's earnings above the 5-per-cent. dividend are well assured, the amount charged for the advances will be put from one pocket of the United States Government into the other.<sup>1</sup> If there should be any doubt as to this 5-per-cent. dividend, would it not stand to reason that the Federal Reserve Bank, if it had ample cash reserves, would rather pay out its lawful money than pay for the costly "advance" of Federal Reserve notes? This is, of course, the very last thing the Government ought to encourage, but we can hardly see how this consequence can be escaped under the law as drawn at present.

But these "advances," when carefully analyzed, are nothing but a myth. Sooner or later, but within twenty years, under the Owen-Glass Bill, there will be outstanding \$700,000,000 of Federal Reserve notes (which will have replaced the National Bank notes), and in addition such notes as will have to be issued to take care of extraordinary demands, together, let us say, between \$1,000,000,000 and \$1,200,000,000. Against these notes "which will be the obligation of the United States," the United States will have no assets of their own whatsoever. The Treasury balances, of about \$100,000,000, are to serve for certain specified obligations of the Government, and are neither available nor suffi-

<sup>1</sup> As a question of revenue to the Government a tax on note issue is superfluous when the excess earnings go to the Government. If the tax is created for the purpose of acting as a sentimental check on over-expansion—unnecessary, because an effective one is being applied by the bank rates—it ought to be based on "liabilities" (comprising deposits and notes issued) and gold cover. But, in a country in which the deposit-and-check system is so highly developed, it would be impracticable to apply the brake on the note issue alone.

cient for the purpose of securing these Federal Reserve notes. The Government relies absolutely on the Federal Reserve Banks to pay these notes when presented. It has no money to advance to these Federal Reserve Banks and it has no money to pay the Federal Reserve notes when presented. As long as the note is in circulation, the Government kindly grants the "advance"; as soon as the note is presented for payment, the Federal Reserve Banks have to cash it. In other words, if we thread our way through this bewildering maze, it is not the Government that gives the advance, but the public which holds the notes that grants the credit. In other words, it is not the United States upon whom rests the primary obligation, but the Federal Reserve Banks. The United States are the guarantors of the notes, which the Treasury would be called upon to pay only after the Federal Reserve Banks are in default.

Why then not put it into a clear form? Why not let the Federal Board at Washington issue these notes—under the supervision of the Treasury—for the joint account and as the primary and joint obligation of the Federal Banks, the United States, in consideration of the profits to be received and against collateral, as proposed in the Owen-Glass Bill, guaranteeing the notes? It is this the writer makes bold earnestly to recommend. The status of both the Government and the Federal Banks would thereby become clear.<sup>1</sup>

Under the Owen-Glass Bill the Federal Reserve Banks set aside a gold reserve for notes which they have not issued and which do not appear as their liability. The United States Government, on the other hand, is to issue up to \$1,200,000,000 of notes, and against these no gold cover would appear on their statement; but as a cover they would show only the indebtedness of the Federal Reserve Banks. There is not sufficient differentiation between contingent and direct liabilities and contingent and direct assets. The Federal Reserve Banks are asked to assume practically the direct obligation for a contingent liability, and the United States figure a contingent asset as a direct asset. The writer proposes to put direct assets and obligations into the same balance-sheet, and the contingent assets into the same balance-sheet with the contingent obligations.

<sup>1</sup>The guarantee by the United States is not a necessity; the notes would be good enough without the same; but as a matter of expediency it would appear wise to follow this course.

This is not a question of bookkeeping only, it has a most vital bearing upon the question of direct responsibility or contingent responsibility in the management of the Federal Reserve Banks. If the United States issued the notes as their primary obligation, if the Federal Reserve Board fixed any interest rates for these advances, the Government would establish a direct connection and direct responsibility which, as we have shown, it is most important to avoid. If the method suggested by the writer be followed, any political pressure addressed to Congress or to the Executive for a lowering or raising of rates, a freer or less supply of facilities, in any particular part of the country, would be promptly turned off by the statement that while the Government undertakes the responsibility for supervision, for installing an efficient and honest management, it could not have any direct influence upon the business of the Federal Reserve Board or the Federal Reserve Banks.

It is the world's acknowledged theory and practice to keep the obligations of the Central Banks distinct from those of the Government. It would lead too far to present a full argument showing the advantages of the semi-official Central Bank over a direct Government organ. It may suffice here to refer to the gold loans granted in critical times by the Banque de France to the Bank of England, a transaction that in 1907 we should have been only too glad to bring about for the United States, but could not achieve because there were no modern American bills and no central organization. A semi-official organ can bring about a transaction of such kind, which would be hardly compatible with the dignity and the duties of a Government. This is another reason for keeping the Government in a "contingent position," but not in the first line of battle.

History has shown that the Banque de France survived when the Government of France went to pieces; it remained unchanged whether France became an Empire, Commune, or Republic. History has shown that by keeping the Central Banks and the Governments separate entities, they become mutual supports. The Government is a customer of a Central Bank; at times its largest depositor, at times its heaviest borrower. The Government's credit strengthens the Central Bank, the Central Bank strengthens the credit and power of the Government. Where Government credit and bank credit have been mixed up, the consequence has been

to weaken both. Are the United States, under the Presidency of a man of science, going to throw this universal experience to the wind? The friends of the present administration, and any good citizen, for that matter, cannot too earnestly warn it not to insist on any extreme measure that would antagonize wide circles of business men and the very element through the agency of which alone the benefits of the law can accrue to the people of the United States. While technical parts of the measure will have to be amended as the country develops, it will prove the greatest curse for the nation if the fundamental structure should not become a permanent one. Extreme party policy now applied will bring extreme revision whenever the Democratic party should happen to again become the minority party; and the Federal Reserve Bank, instead of being a rock standing unmoved and unshaken by the waves of party strife, will become its very plaything, a fate to be avoided at all hazards. We cannot set business free by tying it in turn to the chariot of every conquering party. Wise moderation alone will ensure the safety and the continuity which are the basis of prosperity.

It is sincerely hoped that amendments on lines as here submitted will be adopted. As the bill stands to-day it is vastly inferior to the plan ultimately submitted by the Monetary Commission. In its present form the Owen-Glass Bill is fraught with serious dangers, and it would not be able to bring about those remedies and benefits that the country is entitled to expect.

The suggestions made in this article take into full account the political requirements of the problem.

A reduction of the number of Federal Reserve Banks from twelve to four would not violate any principle. The demand for Government control would be carefully complied with, and the notes would remain "obligations of the United States," with the difference only that they would express what in essence they are under the law, and that interest charges for "advances" would be eliminated.

In dealing with the 2-per-cent. Government bonds as here proposed, no principle would be involved at all, but the prac-

<sup>1</sup> We cannot dwell here upon the harm and danger that would follow the watering of the United States gold currency, which will militate against our securities and our "discount market."

tical importance of this change for the safety of the entire structure cannot be overestimated.

Amended on these lines, the writer feels confident that the law, though not ideal, will redound to the benefit of the nation and be a credit to the party under the auspices of which it was created.

The writer deems it wise not to burden this article with a discussion of a number of questions of a more technical nature, preferring at this time to center attention on the main points at issue.

He hopes that it may not be considered a presumption on his part, if, from Europe, after an absence of several months, and out of touch with the general discussion now taking place upon the subject, he ventures to make these suggestions.

But the active interest which he has taken in developing the ideas, on the main lines of which legislation is now proposed, may, he trusts, justify his effort to point out some pitfalls which may prove fatal and which can easily be avoided.

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**END OF  
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Vanderlip, Frank Arthur

A plea for intellectual  
freedom in currency...

[New York]

[1913]

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A Plea for  
Intellectual Freedom  
in  
Currency Legislation

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F. A. VANDERLIP



A Plea for

Intellectual Freedom

in

Currency Legislation

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F. A. VANDERLIP

PRESIDENT THE NATIONAL CITY BANK OF NEW YORK

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AN ADDRESS BEFORE  
THE ECONOMIC CLUB OF NEW YORK  
NOVEMBER 10, 1913

Address of Mr. Frank A. Vanderlip, President of The National City Bank  
of New York, delivered before the Economic Club of New York  
at the Astor Hotel, on November 10th, 1913.

There are some laws in this world that are more potent even than laws enacted by representatives of a sovereign people. We are in a time when many believe that we can legislate equality of opportunity and reward; that we can by mere enactment alone bring comfort and prosperity.

Still probably all perceive that there are some laws of nature that are unbending even in the presence of legislative edict, that if we pass legislation that does not conform to such laws the result must only be to show the futility of such legislation.

There are as definite laws of economics as there are of health or mechanics. Those laws are not as universally understood, but they are none the less real, none the less certain in their operation. A party caucus cannot change them, nor can a majority vote of a hundred million people. Party platforms or committee reports are mere words that will patter ineffectually against natural laws if not in complete harmony with them.

In the great legislative problem which Congress is now dealing with, a measure is being shaped that is as intimately related to the welfare of the whole people as is any subject that can ever come up for legislative consideration. It is, of course, inevitable that prejudices and partisanship will influence action even on such a subject, and in details there is plenty of room for adjustment between widely varying preconceptions. There are a few fundamental principles, however, that are undeviating. They are not plastic to legislative will, and if legislation is to be permanent and truly successful it must be conformed to those principles.

If the subject of legislation, for instance, were reforestation, we could all recognize that a popular vote would not make cocoanut trees grow on the burned slopes of the Adirondacks; we could see that a popular vote would not of itself enable a patent nostrum to cope successfully with a health-destroying bacillus; we would understand that legislation that ran counter to a law of mechanics would in the end be without effect. It may not be as easy to see that we can not successfully legislate counter to principles of economics, but it is none the less true. In so far as we can ascertain these principles of economics, perceive their application and understand their certainty of action, we must conform legislatively to them if we are to have any ground to hope for sound results.

A correct solution of this problem of banking and currency legislation can be found only through our intellects; it will never be reached through remembering old prejudices or new platforms. It is not likely to be solved correctly by a party caucus, nor through the aid of an administration whip. An intellectual study of how to formulate a legislative measure which will conform to principles of economics, a search of our own

consciousnesses for what is honorably due from one citizen to another, from one community to another, an appreciation of the truth that sound legislation will bring a prosperity that will compensate for some immediate hardships and losses, occurring during the period of transition from an established, though bad system to a correct if necessarily somewhat experimental one—these are the guides that point the road to successful legislation.

There are other guides that have been given generally great prominence, but they are deceptive and dangerous. One of the most dangerous is that guide which points with distrust and suspicion at business men and business experience. In the almost tropical flourishing of our industrial development and our accompanying financial growth, there has been much honesty to criticize and because that is true it has led many people to wholesale condemnation of all business experience and to general distrust and suspicion of the motives of all business men. A sound measure governing banking and creating a currency is not going to grow in an atmosphere of distrust of bankers. Practical faith and mutual trust is what we need.

In the inception of this project for currency reform, so-called "Wall Street," which is the longest street in the world, for it in truth extends across the continent, was a place apart. There has been misconception of its functions and activities, and distrust of its motives. I am purposing to make no defense of Wall Street, but rather to demand as a right that the real and dominant spirit of Wall Street be understood, the value of experience recognized, and belief in its patriotism, which is and always has been as true and deep as the patriotism of any other section, re-established. That issue is really a greater one than the currency problem itself. There is no truer patriotism, no finer spirit of altruism anywhere than among the financiers and great business men of this city, and I want to make a stand for the eradication of the term "Wall Street" in the opprobrious sense. Neither the country nor the government have ever faced a financial crisis that they did not seek and find Wall Street a bulwark. I want to be a militant advocate of justice to the important branch of our active business life that is known as "Wall Street."

I do not believe the intelligence of this country subscribes to the theory that bankers are untrustworthy men. The practice of the business community is to trust them and to trust them largely.

I have no personal apology to make, either for being a banker or for being a Wall Street banker. I decline to accept silently any classification of bankers as discredited citizens. I refuse to be so classified and I particularly refuse to be cut out from participation in the discussion of public questions or from offering such humble service as I can toward the solution of public problems. I am deeply grateful to the Senate Committee for having given me an opportunity in that direction.

What does this cry of government by the people really mean? Who are the people? Are not my associates and am not I one of them? I stand charged with the offense of being president of the largest bank in the United States. Who are the officers of that bank? Let me tell you

that with a single exception they are men whose boyhood started in poverty. I myself wore the blue overalls of a farm hand and a machine-shop apprentice. One of our vice-president's memories of boyhood begin as a cotton picker in the fields of Louisiana; another as a teacher in a country school in Kansas; another as a newsboy on the streets of Chicago. I could go through the whole list and tell you of the most humble beginnings, the greatest sacrifices, of fidelity to duty and of improvement of opportunity that have served to separate these men from others who started as they did but who are instead ending not far beyond the starting point.

I have cited the bank with which I am connected because it is a case with which I am intimately familiar. In general terms, however, the same may be said of every bank in New York City, or pretty much anywhere else in the country. In such a technical and intricate matter as banking and currency legislation, do you want the advice of men who have started in most humble surroundings and remained there, or of men who in spite of every handicap have surmounted the barriers and have made a success of life?

I am charged with representing an institution that in the minds of some people seems to be the very fangs and claws of the "Money Trust." Yet in its dealings with the public the limit of interest which it has ever charged is 6%, no matter how high the rate in the Street has gone above that. That institution has always stood ready to assist the Government in its financing at any and all times, even with the possibility of loss to itself. In its dealings with its employees it has provided liberally for pensions and insurance without cost to them, it has created a fund larger than the endowment of some colleges for their education, and it looks after their physical welfare with the most scrupulous care.

I decline quietly to be tagged a discredited citizen or to come before you with an apology for the business in which I am engaged.

While there is need that legislators should trust business men, I believe there is as great need that business men should better trust legislators. For my own part, I am convinced that the men who now have immediate charge of formulating the final measure of banking legislation feel deeply the vast responsibility that is on their shoulders. I believe they have come to understand intelligently the principles underlying the problem and that they are trying earnestly to shape legislative enactment to those principles. I know that they are hampered by political conditions, by political prejudices and by stubbornly held preconceptions; and perhaps those preconceptions are the most difficult barriers in their way. A scientifically correct decision is difficult to obtain from minds closed to discussion.

The whole subject of banking and currency reform has had years of intelligent discussion. During that time our understanding of the subject, the understanding of even the best informed, has been made more complete, while all, in fact, who have given anything like serious consideration to the matter have now reached substantial agreement on the fundamentals.

We all know there is need for a bank or banks of rediscount, so that commercial paper, which at present goes into a bank's portfolio and lies there financially inert until maturity, may be made liquid through an unfailing ability to rediscount it. That has been recognized and provided for in the House bill. We need mobilization of reserves and the creation of a single reserve reservoir, or several reserve reservoirs, so related as to operate in fact as if they were one. That has been recognized in the House bill and in part provided for. We need a currency, the volume of which will be responsive to the demands of business. That has been recognized and provided for, although there has been attached to it an unnecessary and dangerous government obligation. We need a re-arrangement of our bank reserves so that they will not multiply and pyramid in a way that is both uneconomic and dangerous, but will be gathered into a reserve institution which will administer them wisely, justly and equitably for the welfare of the whole commercial community. That necessity has been recognized and the machinery for accomplishing it set up in the House bill. Over the new system thus created we need a wise, intelligent, experienced administration that will neither be subject to the violent changes of political thought, nor to the machinations of individual or community interests. That principle has been recognized by the drafters of the House bill, but they saw dimly when they undertook to embody it in the measure.

Everyone concerned in this legislation is in pretty substantial agreement upon what result they are seeking, and within very broad lines upon the nature of the banking machine that must be set up to accomplish it. Where, then, is the great difficulty with that measure as it has passed the House of Representatives? Why is it not possible to take thankfully what we can readily get in the way of needed legislation?

I will try to outline in what respects it seems to me the bill as it has passed the House fails to square with economic principles, although those principles were in the main clearly in the minds of the men who drafted the bill.

To my mind the most serious defect is to be found in the nature of the currency which this bill authorizes. That defect, however, does not lie in the fact that the currency fails to conform to those principles which should govern an elastic note issue. It is more fundamental than any of the principles which I have been discussing. The currency is, in fact, a fiat money issue. Sound safeguards have been thrown about the banks to which the government proposes to loan these fiat notes, but they are none the less fiat in character, having no gold cover and no adequate means of redemption provided so far as the government itself is concerned. So safeguards are thrown about their issue which in effect makes them bank notes after they have reached the hands of the bank. That is what they should be and that is all they should be. So far as the working of a banking and currency measure is concerned, the fact that the note is the obligation of the government and is made redeemable by the government will not destroy its elastic quality as a bank note. We might go on under such a system for a long time without experiencing any evil in it. That very

fact, however, would lead the general public to see that currency turned out by a government printing press and loaned to a bank to be re-loaned by them seemed successfully to be performing all the functions of money, and there will certainly be a political faction quick to demand a short cut by way of the loaning of such money direct to the people without the intervention of a bank. There is danger in the government assuming this unnecessary obligation, but the really grave danger lies in leading the public to accept the fallacy that the government can print paper for which it provides within itself no metallic means for redemption, and have that paper successfully perform all the functions of a proper circulating note.

With the House bill provisions thrown about the issue of these notes by the banks, the note will act as an elastic bank note and will properly perform its function for a time, or at least it will if the tax upon the issue is removed, for the banks must not be penalized for issuing notes with a full gold cover, as they would be by the bill as it stands at present. Admitting, then, that the note issue will, with slight modification in the text of the bill, perform its function, although open to the grave objection that lies back of all fiat issues, let us examine what is the next difficulty with the House bill.

We all agree that the present method of holding bank reserves is bad. We all agree that we should do away with the evils of pyramiding reserves and have all reserves kept in part in the vaults of the individual banks themselves and in part in a reserve bank or banks organized to hold these reserves and to grant rediscounts upon commercial paper.

Sentiment, then, divides itself as to whether there shall be one reserve reservoir with many branches, or numerous reserve reservoirs co-ordinated through a central power. To one who has not the principles clearly in mind, the difference may not seem to be a distinction of importance. The House bill, as you all know, proposes twelve independent regional banks, the stock of which the existing banks in the several districts will be compelled to subscribe for, and permanently hold. The underlying thought here seems to be to get away from centralization, to keep so far as possible the reserves of a district within that district and to minimize the importance of the great financial centers. Whether or not those purposes are laudable, I will not undertake to discuss, but I do say with a feeling of complete assurance that if these are the ends sought, the framers of the House bill have missed the mark. The result will not be to accomplish what they wish. To have twelve regional reserve banks means to have several with a capital little if any more than the minimum of \$5,000,000 each. The bank which I represent controls an aggregate of \$70,000,000 of banking capital. There are other banks approximating that banking power and many that would be larger than the regional banks if twelve of them are set up. The creation of twelve regional banks, then, will not tend to minimize, but rather to emphasize, the power of large institutions. Great public institutions, though they are designed to be, they will represent less financial strength than individual institutions.

There is another objection to the twelve regional banks that is of much deeper significance, however. The whole theory of centralized

bank reserves is based on the idea that there shall be consolidated in one reservoir the reserves of banks operating under diverse agricultural and industrial conditions, meeting a borrowing demand that is not general but special, so that the plethora of funds in one community can be made available to meet the lack of funds in another. If twelve regional districts are created in this country, they will of necessity be so small that in several cases at least there will be typically similar conditions prevailing throughout an entire region at the same time.

Let us take for example a regional bank located in New Orleans. The district in which that bank would operate would comprise a great cotton growing section. Climatic and crop conditions could be practically the same throughout the district. It would follow, as experience clearly shows has been the case, that practically all the banks in that district would feel an identical pressure at the same time. Thus none of the advantages of centralized reserves from banks operating under varying conditions would be realized. The resources of that bank would be soon exhausted, because all the member banks would be in need of assistance of the same character at the same time. There is an economic principle involved in the number of regional banks. It is not a matter to be settled by adherence to a political doctrine. It is a subject for intellectual judgment and not one to be settled correctly by merely a show of partisan strength.

The framers of the House bill really see this point, and so they have given power to the Federal Reserve Board to compel one regional bank to loan to another. Perceiving that to be a dangerous and obnoxious power, it has been hedged about so as to make it ineffectual. Obnoxious as I regard such a power, I still recognize that the necessity for creating in effect a single reserve reservoir is paramount, and if there are to be numerous regional banks there must be unrestricted power given to a supervisory authority to compel banks to loan to one another.

The House bill creates the capital for the regional banks by forced subscription from existing National banks. Each National bank is compelled to subscribe 20% of its capital, paying up half of that amount and remaining under liability to pay the remaining half. Having subscribed to the capital, it must keep the stock inert in its portfolio. It is a type of the worst form of investment of a bank's funds, for it is an investment that is absolutely unliquid. More than that, the compulsion of banks to make an investment of this or of any other character is unsound.

The central governing authority must of necessity be given the largest sort of powers if a system of regional banks is to be made workable at all. The character of that central authority, therefore, becomes of great moment. That a management of this sort should have continuity and experience and should be as free from political pressure as from the danger of serving private interests would seem to be axiomatic. The House bill provides for a board of seven, three of whom are ex officio members, coming from the executive's immediate official family. One, the Comptroller of the Currency, is the subordinate of another, the Secretary of the Treasury. The Comptroller of the Currency bears a pecu-

liar supervisory relation to all the National Banks, and would be placed in a most undesirable double relation to the banking situation by such an appointment. The regular members of the Federal Reserve Board are appointed for comparatively short terms, and the bi-partisanship of the board is insured through the specific provision that not more than two shall be of the same political party. The lack of emphasis upon experience is shown in the further provision that one member of the board shall be a person experienced in banking.

Here, then, are the grounds where sharp division of opinion are displayed,—the character of the note issue, the number of regional banks, the compulsion of existing banks to subscribe to the stock of the new banks or surrender their charters, and the nature of the central control. The ground of differences is narrow enough to permit thorough discussion and a comprehension of the reasoning supporting each view by anyone who cares to study the subject.

In the case of the note issue, I am of the opinion that a sufficient faction of the dominant party so strongly believes that the government should control the volume and issue of all currency that there are not good grounds to hope that legislation can be secured with the present constitution of Congress which will provide for a true bank note. On the other points of difference, it seems to me that the reasons for amending the House bill are so cogent, so easily comprehended, so far from being political on the one hand, or representing merely the selfish wishes of centralized financial power on the other, that it ought to be easy to reach a conclusion based on intellectual judgment alone. Several members of the Senate Committee on Banking and Currency I know are of that opinion. They believe that a measure can be drawn which will square with economic principles and will still meet all the essential tenets of Democratic faith. They did me the honor to ask me to attempt to devise such a plan.

There is perhaps some reason to regret that the members of the Committee waited until such a late day to develop their ideals for a single central institution. The plan for a regional system has been thoroughly crystallized and was fixed in the political mind of the country in such a way that any attempt to present a new plan was in danger of being viewed as merely an effort to defeat the measure that had passed the House, or at least to postpone its acceptance. Those political considerations, however, were certainly not of my making, and I was not asked to weigh them, but I was asked to give these members of the Committee my best judgment in outlining such a plan as they had in mind.

The plan that I presented was for a central bank, the stock of which should be freely subscribed for and owned by the people, and the management of which should be solely in the hands of the Government. I by no means lay claim to this as my personal plan for legislation (although it has my approval) and I deeply deprecate that my name has become attached to it, if there is such a prejudice against any banker-made plan that it cannot be considered on its merits.

This plan for a central bank contemplates the creation of an institution with a hundred million dollars of capital, the stock of which should be tax free and bear 5% dividends, and be offered to the public. I believe it would be eagerly taken by the public and that it should be allotted to the smallest subscribers first. This would create an institution, the capital resting on a free public subscription, rather than a compelled and unwilling bank subscription. The Government would have all the earnings above the dividend requirement, and the surplus above the dividend requirements should be devoted to the retirement of the government debt. I would give to this stock no power of any sort, voting voice or otherwise, except the power to receive dividends. The management of the institution should be solely in the hands of a board appointed by the President, but that board should be as free from political and partisan influence as from private influence. I would, therefore, have no ex officio members, but rather a board with life, or at least long-term, appointments. I have suggested a board of seven, with terms of fourteen years, the term of one director expiring every two years. This would make it possible for a President to change the majority of a board only by the end of his second term, unless there were other than normal vacancies, or by removal of a director for cause to be stated to the Senate. This central bank would have as many branches as might be needed to accommodate the business of the country. The principle which prohibits numerous independent regional banks would in no wise operate against numerous branches of a central bank. Every city of importance could be provided with a branch or a sub-branch of such an institution, while to create as many as twelve or indeed fewer than that number of independent regional banks is such a violation of an economic principle that nearly all the benefit of the attempted mobilization of reserves will be lost. I would have a bank note currency issued solely as the obligation of this central bank. As the bank would be controlled by public officers from the governor to assistant janitor, notes issued by such a bank would still be in perfect accord with the political principle that the government must control the volume and issue of currency, but notes issued by such a bank would be open to none of the objections of a fiat issue of government currency to be loaned to regional banks.

There are many minor defects in the House bill which I think can and will be rectified, for they touch technical rather than political subjects, but I believe I have stated the points of great importance where there seems to be a fundamental difference of opinion. I believe that the House bill does not properly provide for maintaining the existing 2% bonds of the government at par. I believe we cannot have a truly elastic currency until a part, at least, of the outstanding National bank notes are retired so as to make room for a truly elastic element in our circulation. I have suggested to the Senate Committee a plan to meet this situation, but in a discussion of these broad principles it is hardly necessary to go into such details at this time.

I know that the opinion is held in some quarters that I have projected this plan for a central bank into the situation with a view to confusing political action. I deeply regret that anyone can hold such an opinion, for nothing could have been further from my intention. The plan was prepared because three members of the Senate Committee desired me to prepare it. It was the intention to hand the plan to these members of the Committee and in no way to connect myself with it. I was offered practically no alternative but to go before the Committee and elucidate the plan. I did that with regret, because I understood clearly enough that my connection with it would create a political difficulty in the way of its adoption. Instead of wanting to confuse and obstruct legislation, I have the deepest desire to aid and facilitate it. For years bankers have been almost the sole advocates of just the sort of legislation that it is now hoped we will have, and it is unfair to accuse them of being in opposition to sound legislation. I believe it would be desirable to have legislation completed at this session, but it is far more desirable that legislation should be sound than that it be merely immediate. There is nothing in the business or financial situation that demands immediate action. There is much that demands action in conformity with economic principles. It is of no moment at all to the business world whether that action is in October or January, but it is of tremendous moment that we have legislation that will work successfully, and toward the carrying out of which bankers will heartily co-operate, not through compulsion, but because their business judgment recognizes it as sound.

For many years I have been discussing this subject, largely as an academic matter. It has ceased to be an academic matter. It is now a matter of imminent legislation.

I believe the Senate Committee, at least, very thoroughly understands the subject. They see clearly the principles and how those principles should be applied, but they are seriously hampered by political opinion. There are prejudices that date from the old United States Bank, although the lines of comparison are in no wise parallel. There are difficulties in the declaration of the Baltimore platform. Desirable as it is that parties should honestly stand upon the platform upon which they win a victory, it is certainly undesirable that Congress should surrender its legislative mind and be bound by an unsound platform declaration, rather than by serious, intellectual judgment, formed after careful analysis of the factors of a problem. The duty that is before every citizen, and, too, an immediate and pressing duty, is to give such a weight to public opinion that Congress will brush away the barriers of conceived political expediency and recognize that sound politics and sound economics go well together.

There are two factors that give force to public opinion; one is its extent, another is its intensity. An opinion intensely held by even a minority, if it is backed by absolutely sound principles, is pretty sure in the end to become the opinion of the majority. I suppose it is fair to say that the Economic Club gathers in these meetings the repre-

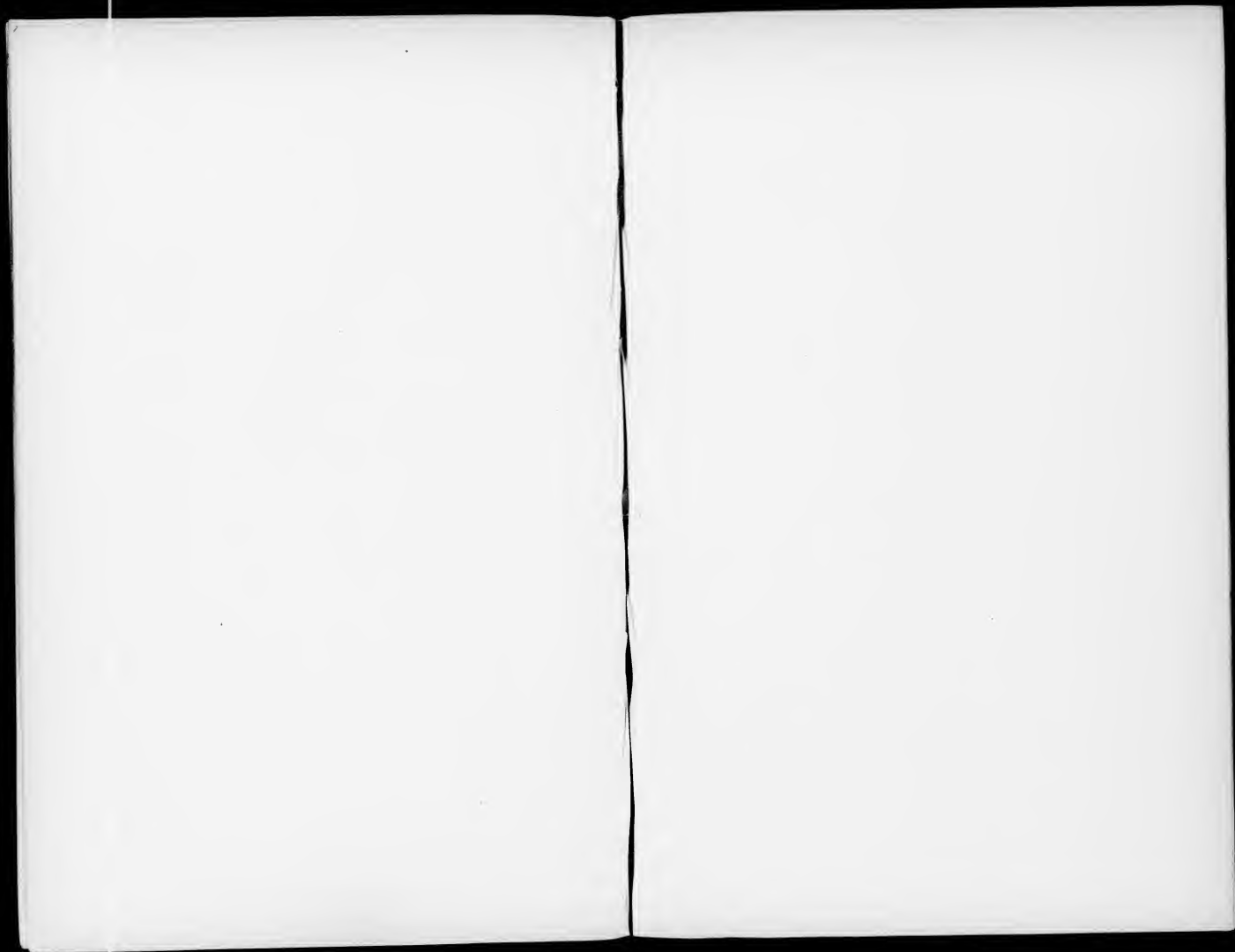
setative economic and business thought of the metropolis of this country. I believe an opinion intensely held by the men who compose this audience, if it stands solidly based on economic truth, will be a factor of greater governing weight than would a far more widely held opinion in the minds of men who have not very seriously considered the subject. You have, then, an immediate civic duty of the highest importance. It is to understand clearly the principles involved in this legislation, to feel intensely the necessity of conforming legislation to these principles and to the best of your ability to transmit that intensity of feeling to your associates and to Congress. The voice of the members of the Economic Club of New York ought to be a potent voice in currency legislation. It is not too late to utter it. I know you will utter it intelligently. I plead with you to do it forcefully.

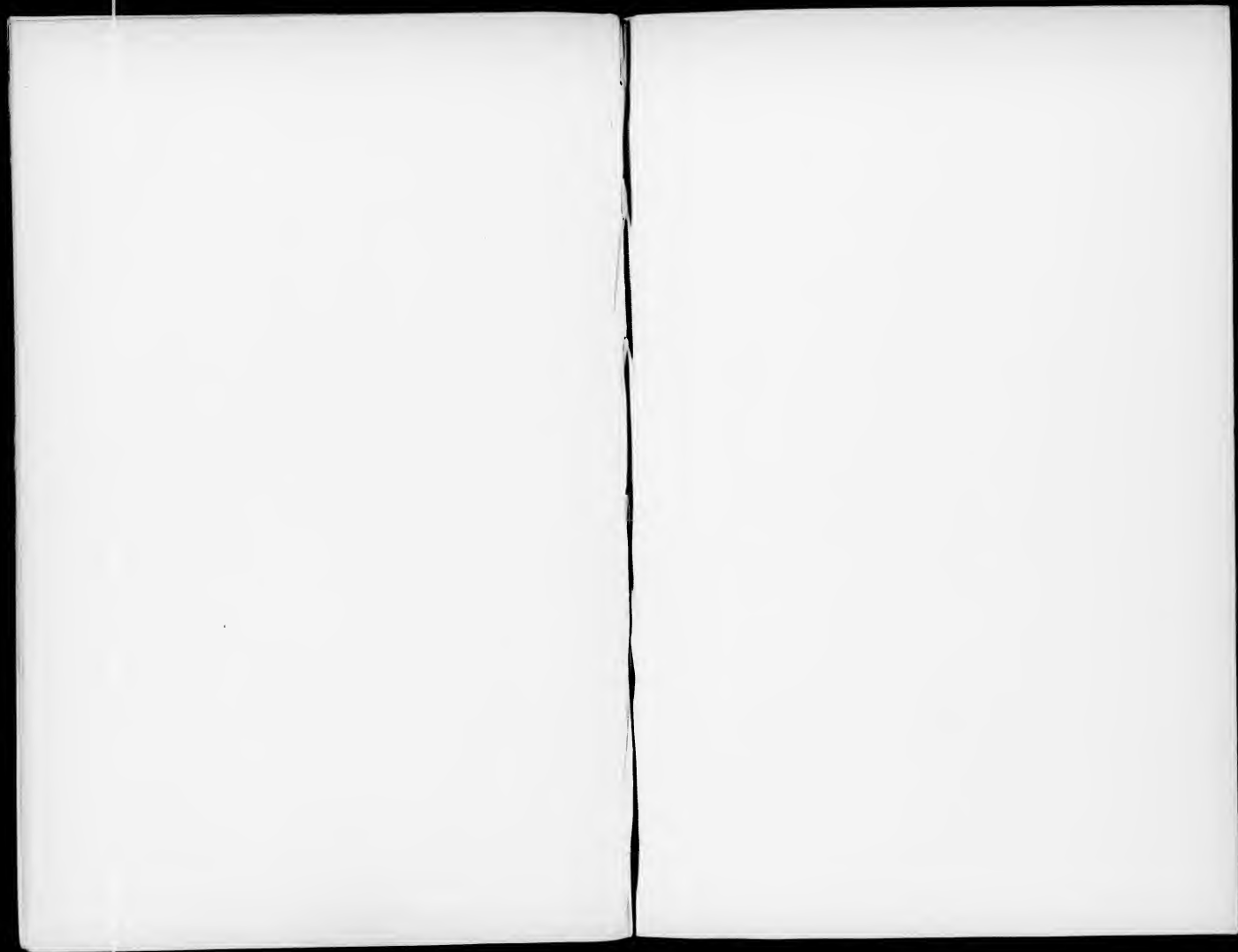
But I want to say a word of warning, too. Denunciation is not helpful criticism. What the situation needs is co-operative, constructive criticism. We must remember that while the problem is economic, its environment is political, and in its solution is deeply involved the welfare of the country. We cannot hope for an economic vacuum freed from all other influences, in which statesmanship will write a banking and currency measure; but we are entitled to expect in the solution of a problem of this type that intellectual judgment should rise superior to party declarations or prejudices.

The attitude of the Senate Committee on Banking and Currency, whose Chairman you have had the pleasure of listening to, is of great importance. You are yet to hear something of the attitude of the dominant members of the House of Representatives from the Chairman of the House Committee on Banking and Currency. There is one other factor of tremendous importance to be reckoned with in the settlement of this question—the President of the United States, who is represented here tonight by his Secretary.

Could I speak directly to the President of the United States, I would feel, considering the present position of this legislation, that it was one of the most solemn and important opportunities I had ever faced. I would say to him that the country owes to him unbounded praise for the firm stand he has taken for currency legislation. Without that positive determination, without the grim will that he has shown, legislation at the present time would be impossible, and there is due to him for his courage, his persistency, for the strength of his political purposes, unstinted praise, but I could not stop with saying that. I would say, "Mr. President, the history of this country, with which you are so familiar, presents few examples of greater responsibility resting upon its chief executive. Tariffs, tax schemes, or even wars themselves may affect only members of the body politic, its hands, its arms, but banking and currency legislation affects its heart. It reaches every citizen, humble or great, rich or poor, and the measure that history will make of your acts will be largely influenced by the success or the failure of the legislative program which you are now with your splendid will imposing upon the country. We need legisla-

tion, but that legislation must conform to higher laws than any man or set of men can make—to the laws of economics. Those laws are greater than party platforms, they are greater than any administrative program, they will work undeviatingly whatever legislation you write upon the statute books. There can be no time limit beyond which you cannot change a legislative plan if by such change you will more nearly conform that plan to these higher laws. There is nothing in the financial situation that need give you cause to hurry if by taking time for deeper consideration and for better understanding your proposed enactments can be improved. The enactment of new banking and currency laws may be made a short ceremony, but that enactment will have endless consequences for good or evil. I beg of you not to close your mind to argument that is based on an understanding of principles, nor to let your judgment be clouded by partisan pride or the hope for partisan advantage. You may proudly say that you do not write your political program in chalk, but if that program is found by experience not to square with sound economic principles its indelibility may some day be your deepest regret. You have earned the gratitude of a great people by bringing through your force of will this legislative program up to the present point. If you will now throw the tremendous weight of your influence on the side of free intellectual judgment and against the brute force of party majorities, if you will throw the great weight of your influence in a direction that will lead to an exercise of freedom of thought without political restriction, if you will see to it that decisions may be made upon the economic merit of the proposals and not be tied and hampered by party domination, you will then have earned lasting praise. Do not again permit the intellects of the men who must decide this great question to be bound and hampered by caucus rule. Do not permit partisan pride to stand in the way of achieving what is right. See to it that there is free play for the sound and unhampered judgment of Congress, and then you will indeed have brought to this country a new freedom."





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